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The MAGAZINE of WALL STREET and BUSINESS ANALYST

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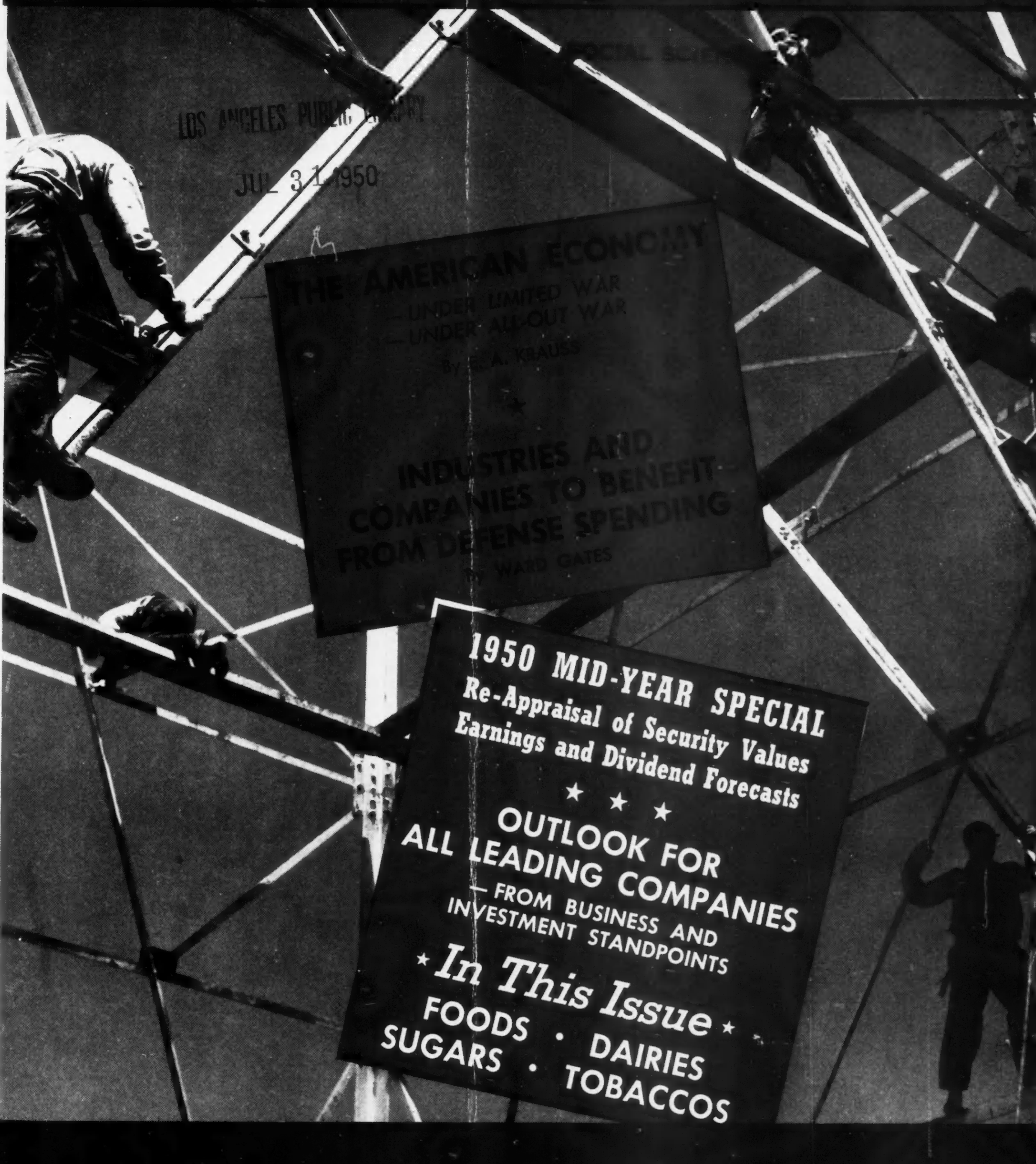


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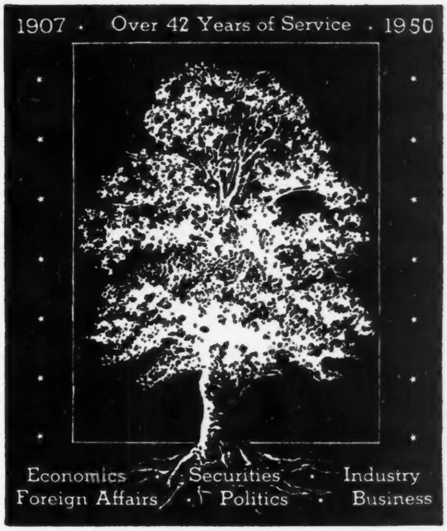
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

THE PRESIDENT'S MESSAGE . . . President Truman's recommendations for mobilization for victory in Korea and heightened preparedness elsewhere are necessarily general and will have to be refined and clarified by Congress. By and large, however, the chief executive has presented a clear picture of the problems facing the nation and outlined a program, both military and economic, that seems realistically attuned to these problems.

On one point, however, business is bound to have certain misgivings. That is the request for authority to make and guarantee loans for expanding productive capacity, and to deal in strategic materials. Under such authority, the Administration could readily finance new enterprises in a wide variety of industries to compete with those now existing.

This has a familiar ring. There is room for a sneaking suspicion that such power might be used to fight "bigness," or to attain some other socialistic objective under the guise of promoting national defense. Here in particular, Congress will do well to make the grant of authority specific and to make clear its intent that no ulterior motive should be furthered through such guarantees and loans.

For regardless of the exigencies of the present emergency, there will be great temptation to force, and if necessary finance, further expansion of industrial capacity. Fair Dealers and war planners were already thinking that way and Korea has given them the impetus needed. Congress must make sure that we are not sliding into a socialist state via any such backdoor. While a more active part of Government in directing the economy is unavoidable, any planned expansion should remain within the limits of actual necessity and free competitive enterprise.

Administration planners have frequently harped on alleged inadequate capacity in steel, in electric power, non-ferrous metals etc. Korea alone probably won't be enough to sway Congress into falling in with any schemes for Government-guided expansion but it does create an environment of apprehension. At the least, it will further the campaign to pressure industry into expanding at a faster rate. In respect to the entire mobilization blueprint, Congress must see that the emergency is not exploited as a chance to plug anew for socialistic Fair Deal ideas which the country has rejected in the past.

Apart from this, the President's message was timely and to the point. It stands as an unanswerable indictment against communist aggression, just as partial mobilization was an unavoidable step in the interest of self-protection and national security. Both from a military and foreign policy viewpoint, it came none too soon. Having made a stand, there was no time to lose in demonstrating to friend and foe that we are ready to hold to the course we have chosen. Days of crucial decision are at hand in Korea where the northern invaders will soon need big help fast, either from Communist China or Soviet Russia or both, in order to deliver a knock-out punch. They will begin to lose, if such aid

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

doesn't come, either directly or in form of diversionary red moves elsewhere to scatter American military strength.

It is for this reason that our mobilization has come none too soon, for it gives notice to the aggressor that we are in the war to the finish. Knowing this, he may hesitate to risk deeper involvement. Perhaps he doesn't. At any rate, we will soon know whether the war will spread. If it does, chances are that the current defense program will soon snowball into full mobilization. Certainly the nation is moving closer to a war footing, and it seems clear that it will move consistently in that direction for many months to come.

THE FOLLY OF HOARDING . . . The housewife who told the store manager that she was buying extra quantities of sugar and nylons "before the hoarders can get hold of the supplies," and the industrial purchasing agent who is trying to build up larger "working stocks" of relatively scare materials have one thing in common: They think they have learned something from the previous emergency; this time, they are determined to play it smart.

Yet they may be as wrong as can be. Chances are that a good memory this time may not be too profitable because conditions almost certainly will not be the same. Whatever it will be, if there is a "next time," the control pattern will be different from that used during World War II. The hit-and-miss and trial-and-error stages will not be repeated. Nor will public opinion stand for any repetition of the political pressures that undermined the early control efforts during the last war because farm prices and wages were left uncontrolled and permitted the generation of strong inflationary pressures until it was almost too late. The most reassuring element in President Truman's mobilization program is the strong determination to avoid any revival of similar inflationary forces; the hope is that it will be strong enough to block any and all political pressure tactics. If so, hoarding will hardly be profitable.

Rather, it will be the quickest way to bring to life what everyone would like to avoid—the ghost of OPA. One sure way to bring back price controls, rationing and the like is not only consumer hoarding, foolish and antisocial as it is, but also the rush of buying in anticipation of higher prices, or because of fear of a general price freeze. Such actions will make the case of a return to OPA so much stronger, thus will be entirely self-defeating. And undue hiking of prices in order to assure a "satisfactory" freeze level will merely invite deserved roll-backs.

There is no sound reason under present conditions why we should contemplate ending reliance upon the free market and returning to the strait jacket of a price freeze, provided common sense prevails. If greed and selfishness take over, however, the quickest possible introduction of price controls and rationing will be the best and only effective answer and in that event, we are heartily in favor of it.

Stable prices are needed not alone to keep down the cost of rearming, vital as this is, but to assure stability of our whole economic and social structure and industrial peace. Mounting living costs would quickly bring new sweeping demands for wage increases, with threats of strikes and turmoil in labor relations, and put a merciless and undeserved squeeze on those who cannot adjust their incomes proportionately.

Hoarding, we say therefore, is folly, particularly the hoarding of food, the supply of which is overabundant. All it does is push up prices, and make everyone pay for the hoarders' foolishness. And if hoarding is folly, profiteering is criminal and should be so viewed, and dealt with accordingly. Quick and drastic action now can avoid a lot of trouble and unpleasantness later. Government and industry should not hesitate to crack down on profiteers wherever they are found.

WHITEWASH . . . Senator Tydings, chairman of the Senate subcommittee which investigated Senator McCarthy's charges that the State Department harbored communists, has brought in his committee's verdict and found the defendant innocent and the prosecutor guilty. The report is probably the most disgracefully partisan document, and the most patent whitewash ever to emanate from Congress.

The inquiry on which the report was based, was a superficial travesty of investigative procedure. Actually there was no real investigation. The committee was obviously friendly to New Deal witnesses, and hostile to the McCarthy witnesses; and there were no proper cross examinations. As Senator Lodge stated, it totally ignored its actual mandate from the Senate which was a broad directive covering the entire question of disloyalty. In spite of damning evidence, it gave the Administration a clean bill of health. No wonder two committee members declined to sign the report. The clearing of every person who had been accused by Senator McCarthy certainly was not free from doubt and suspicion. The inquiry as such has left unanswered certain important questions regarding State Department practice, policy and personnel.

To answer these questions, Senator Lodge in his minority report has proposed that all the evidence be submitted to a new commission which will be of sufficiently high caliber to be case-proof against charges of partisanship. It is one point on which both, majority and minority opinion appear to be agreed—namely, that a congressional committee of inquiry is not the proper method of producing conclusive answers to questions affecting the loyalty of Government employees.

We consider Senator Lodge's idea a good one. There is need to go to the bottom of this thing and purely partisan whitewash is hardly in the interest of the nation, particularly in these parlous times. It is not a matter that should be subjected to sordid political maneuvers.

The issue of course is not the soundness or wisdom of the State Department's policies in Asia regardless of the fact that they have proved eminently unsound and dangerous. These are matters of judgment, not of disloyalty to the interest of the country and loyalty to communism. The issue is to find proof of the latter, and if found, to expose it unhesitatingly—no matter where the chips may fall. In the light of what has happened, a new objective inquiry appears in order. The Tydings subcommittee has completely failed to convince the public.

As I See It!

By ROBERT GUISE

THE COST OF APPEASEMENT

As far back as 1935, this publication has been calling attention to the difference between the ideals of communism and the Russian form of government—pointing out the human instincts that made real communism utterly impractical, and the dangers inherent in the lack of good will and cooperation shown by the Soviet leaders despite our extensive war-time aid and collaboration, followed by President Roosevelt's unusual, and as it now turns out to be, ill-advised generosity in arriving at settlements with the Russians.

It seems that our leaders were far behind the people of our country in recognizing these truths. Mr. Truman's determination to fight in Korea produced acclaim on all sides with a knitting of factions, the exceptions being the die-hard appeasers who still think that seating the Chinese Communists in the Security Council will prevent war with Russia. The Government, it would seem, has finally caught up with the people, who somehow have long realized that appeasement doesn't appease; and it certainly doesn't pay, as we have learned to our sorrow and at high cost.

"IS THIS STALIN'S PRICE FOR PEACE?"

Loring in the Evening Bulletin

It is now said that the last prospect for diplomatic settlement of the Korean war has disappeared with failure of the Anglo-Russian conversations in Moscow to amount to anything. That, of course, was to be expected by anyone who knows the Russians, by virtue of the condition that Communist China be seated in the Security Council, by the obvious fact that the Russians are not going to revise their demands while the North Korean communists are winning. Certainly the Soviets cannot be expected to discuss an acceptable settlement until our forces in Korea begin moving North instead of South.

Even then, there can be no bargaining on aggression. Appeasement certainly should be out for good, if only because we cannot afford to win any more battles and lose the peace. Our task now is to determine our objectives and stick to them, for we must finally realize, in turn, the Kremlin's determination to extend its power throughout the world by deceit, subversion or outright attack. We must recognize our errors of the past and act accordingly.

We are in a struggle to death with an implacable enemy who, despite our friendliness, has slapped us so often that we should know at long last that he doesn't want our friendship but merely our submission. With that in mind, he has not only fought us relentlessly in a "cold" war and instigated great masses of unthinking mob hatred against us, but he has been, and still is arming to the teeth for the inevitable showdown. In the face of this, there is great need for leadership which thinks, leadership which must decide in advance, and not wait until the 11th hour as we did in the case of Korea, what we shall undertake to defend, and say so publicly. To do otherwise may easily risk succumbing to the Russian strategy.

Not only Soviet strategy but the Kremlin's intentions become crystal-clear if we consider that virtually the whole non-communist world is all but unarmed, including the United States, but that Russia is armed to the hilt. Certainly there can be no surer sign of Russia's aggressive intentions, if any other signs were lacking—and there are many other signs.

Take Korea itself. Obviously it took a long time to prepare for the communist invasion and the strength of the attackers intimates that they were figuring on possibly stronger resistance than the weak South Korean forces. Whether the communists planned on American intervention or not, the fact remains that they were certainly prepared to meet any American forces on better than even terms.

All of which hardly re- (*Please turn to page* 492)

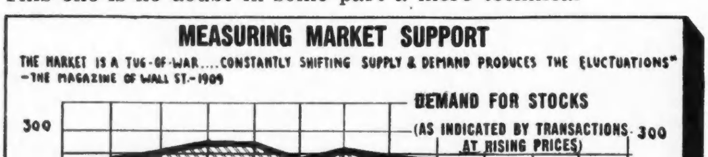
Wisest Market Policy Now

The recent rally, led by "war stocks", does not change the picture and may be mainly technical. In view of continuing major uncertainties, a period of trading-range movement seems the best possibility. Even as to that, much depends on unpredictable news. Defer buying. Maintain present holdings of sound stocks if reserves in cash or equivalent are adequate.

By A. T. MILLER

Following three weeks of decline in average stock prices, incident to our war in Korea, there has now been one week of recovery up to this writing. Meanwhile the marked shift in selectivity, wherein the preference is for stocks with a "war flavor," has gone considerably further. The Dow-Jones industrial average has made up slightly more than one third of the war-scare fall from the June high. Back in favor as semi-war stocks, the rails are in new high ground for 1950, along with such groups as aircrafts, coppers, steels and shipbuilding stocks. On the other hand, the utility average has recovered less than 11% of its June-July decline, since investors have jumped to the conclusion—probably correct—that the industry has nothing to gain, and perhaps something to lose in a semi-war or war economy.

The motivation of a rally is always conjectural. This one is no doubt in some part a mere technical rebound from a violently oversold market position. It may have been facilitated by President Truman's message to Congress, in the sense that this ended previous immediate uncertainties about some things, including the scope of the initial boost in armament spending and the character of the initial economic controls that the Administration requests. It has had little or no help from the Korean war news, for while the official statements are cheerful, the Communists continue to push our inadequate forces backward; and it becomes daily clearer that we have a big effort on our hands—so much so that victory is an indefinite distance "around the corner", is something less than assured, and, at best, is possibly a matter of a good many months.

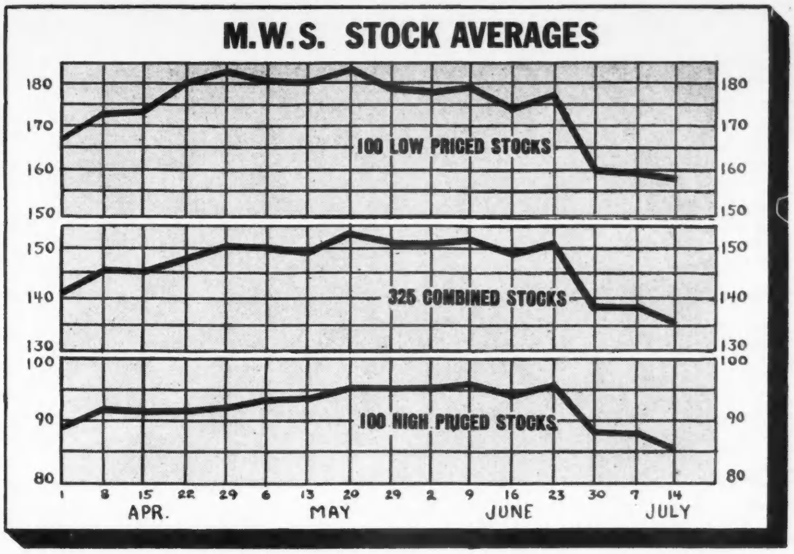


Nearby Market Potentials Limited

In any event the rally has not exceeded minimum technical proportions; and hence might go a little further, the day-to-day news permitting. However, the visibility is poor, and there are continuing uncertainties of major importance. The latter include the still unclear Russian reaction to our intervention in Korea; the details of the virtually inevitable excess profits tax and of the probable boost in personal income taxes, with neither likely to be clarified before the forepart of 1951, unless global war should speed the legislative process; and, finally, whether price controls will have to be applied. In the light of these imponderables, the market's upside potentialities, from last week's closing level of 207.73 for the Dow industrial average, appear quite restricted. Thus 5 more points of rally, less than 2.5%, would extend the recovery to make up half of the entire decline. A basis for much more, if for that much, is hard to see.

If you rule out the possibility of a renewed bull market – and no present basis for such a trend is apparent—you have to conclude that the "leeway" for price movement is greatest on the down side. Thus, the recent lows at least in the industrial and utility averages could readily be broken, and rather widely so,

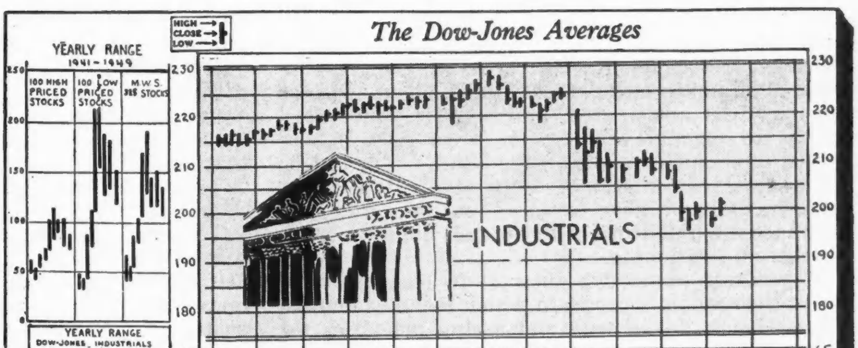
given all-out war. They could probably be broken by Russian-directed aggression in the Balkans. They might be tested by Communist moves elsewhere in Asia; or by discouragement stemming from the course of the war in Korea, or from tax and price-control developments.



This suggests that the best to be allowed for under anything like present conditions is a period of fairly restricted trading-range fluctuation. There is a fair chance, barring global war, that such a pattern can be maintained, despite the potential medium-term risks to be faced; for the psychological forces pulling on the market are by no means one-way. On the restrictive, if not depressing side, you have the fear of, or uncertainty about, all-out war; and a tax and price-control threat to corporate profits, if not also to some dividends. But on the other side you have guaranteed high business activity for an indefinite time to come, probably at least several years; and you have a substantial inflation factor in any event, possibly a major one.

Historical Parallels

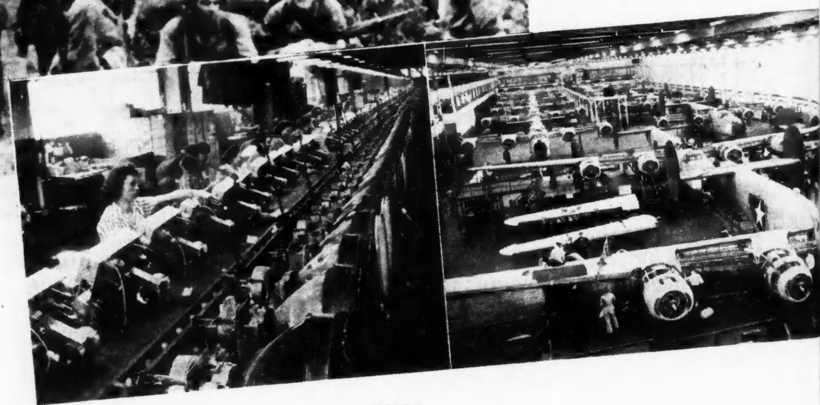
Stock prices typically go down in anticipation of war or at the surprise start of war; but rise later on, discounting inflation and high postwar civilian business activity. A month after the end of the Civil War, stock prices were about 30% higher than when it started. Approximately the same was true of the Spanish-American War. It took longer for this to work out after World War I; but the pay-off in the 1920's was very large. The end of World War II, of course, found stock prices far higher than at its start. What this comes down to is that investors who just "sat tight" on reasonably sound stocks fared better than did probably 9 out of 10 of those who tried the sell-and-buy-back strategy, always extremely difficult to time with much benefit.



Under the psychology now prevailing, people are trying to anticipate the repercussions months in advance, and probably exaggerate them in some respects. It is impossible to predict what degree of conversion of industry to war production will be required, except that it will be initially small. No one can guess the extent by which the excess-profits tax formula will differ from that applied in World War II. Until it is settled, earnings projections can have little validity. No one can predict how the increased load of personal income taxes will be apportioned. It can be predicted that taxes, plus gestures of "economy" in non-military Federal spending, will probably cover less than half of the added outlay. The inflationary deficit financing which this prospect implies is being anticipated by strong upward tendencies in the Government bond market now.

No one can predict Russian tactics. They might be to reinforce the North Koreans sufficiently to confront us, at best, with the prospect of a stalemate or a far more protracted and costly effort than the Truman Administration figured on; and, at worst, with defeat and withdrawal of our forces. They might be to launch *(Please turn to page 496)*

To supply our armies in the field and prepare against future contingencies, American industry will be called upon to convert in part at least from peace to war production. How much? — only the future can tell.



★ ★ ★ The ★ ★ ★ AMERICAN ECONOMY

—UNDER LIMITED WAR —UNDER ALL-OUT WAR

By E. A. KRAUSS

American business last week was handed the Administration's blueprint for an economy of limited mobilization. The requirements enumerated must be viewed as a first instalment on the costs of a firmly peaceable world rather than just steps toward coping with the dimensions of the Korean war. For that reason, the President's message assumes far greater stature and significance than its economic or military features alone could give it.

Briefly, the Chief Executive asked Congress to vote $10 billion in new defense funds, about twice as much as was anticipated, and to give him broad powers to expand the armed forces and impose limited economic controls on the home front. But he also warned that other, more unpalatable steps would come, including higher taxes on business and personal incomes and, if necessary to halt inflation, price controls and rationing.

Of greatest immediate interest to business is of course the economic program which includes mandatory authority to allocate and assign priorities for materials essential to the military effort, and authority to limit production of non-essential goods using strategic materials. It also calls for cutbacks by governmental agencies in construction and other programs that would require essential manpower, facilities or materials. It provides for stepped-up procurement and asserts the need for loans and loan guarantees for producers of military equipment.

Recognizing the actuality of unjustified price increases and the danger of a run-away inflation, the President further demanded curbs on consumer instalment credit, authority to restrain speculation on commodity exchanges, and power to tighten up on real estate credit. These of course are anti-inflationary "musts," as is the emphasis on the need for higher taxes to finance the greatest possible amount of the stepped-up spending.

The various measures proposed are largely in line with expectations but each holds its own significance as far as prospective impacts on the economy are concerned. Just how will life in a mobilized economy shape up? What impacts, what repercussions are to be expected? How great will be the sacrifices which the average American will have to bring?

To begin with, let's point out the obvious first. And that is that the blueprint offered, the pumping of $10 billion of defense money into the economy, certainly won't leave any room for any cyclical postwar depression such as was feared intermittently since the end of World War II. $10 billion does not loom very large when compared with an annual gross national product of some $270 billion. But superimposed on a record peace-time boom, with order books bulging in virtually every industry, it is bound to create new problems. These are implicit in the basic economic objectives laid down by the President: Priorities for military requirements; curbing inflation; and the stimulation of defense production. Chances are that it is merely a matter of time and developments before stricter economic powers will be necessary.

Much depends on how fast the $10 billion will be spent, and for what. These are important considerations, as we shall see later. But whether the spending

increase will be big or small, it comes on top of an economy already going full blast, thus creates a situation strikingly different from that prevailing in 1940. Hence historic parallels are a poor guide; this all the more so, since the pattern of the two world wars is hardly applicable to the present conflict.

The End of "Business As Usual"

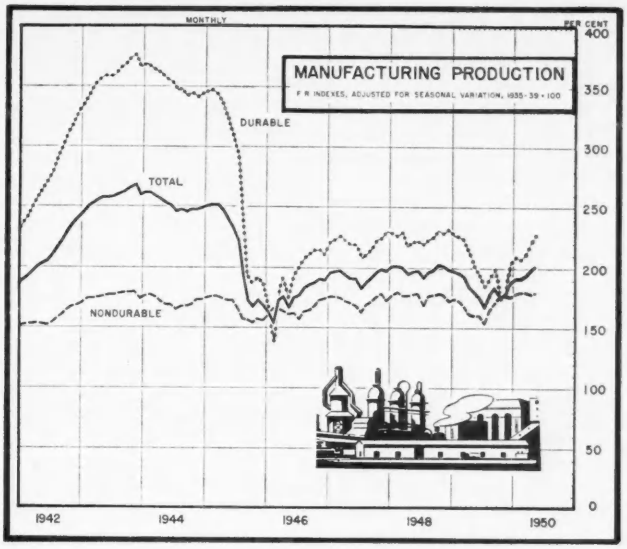
Whatever the precise impacts, and whatever the outcome in Korea, relations between Government and business will now change fundamentally as the businessman's five-year vacation from Government controls is ending. "Business as usual" cannot last long the way things are going. While it would be premature to expect a quick, sharp reduction in the production of consumer durable goods, some cutbacks will be forced in coming months because of allocations of critical materials to the defense program. Autos, refrigerators, washing machines and a host of other durables may be affected in varying and as yet unascertainable degree. However, even before that, instalment credit restrictions may serve to reduce the current wave of scare buying. The hope is that it will, if only to avoid the need for rationing and price controls which certainly would be greatly enhanced if present tendencies continue.

Cracking down on ultra-easy mortgage credit should have similar effects. The President already has put the postwar housing boom in reverse by making it harder to build or buy new homes, or finance home repairs. However, these curbs will be only gradually effective. "De-booming" housing construction will take time because of the great volume of already outstanding commitments unless allocation of building materials is resorted to, as at least hinted in the President's message. Conceivably this might be expected, should any extensive scare buying of homes develop, with construction demands increasing sharply instead of diminishing.

The extent to which allocations will affect civilian production should largely depend on the type of defense spending, hence there is a great deal of speculation in this respect. As it now appears, the bulk of it will go for re-equipping a strengthened armed forces program and setting up machinery for induction of servicemen. Only a relatively small part of the total may initially be used for new materiel. A large-scale de-mothballing and reconditioning of equipment already on hand is generally foreseen. If this view is correct, it would have interesting connotations in that it would signify perhaps far smaller cutbacks of civilian production than now held likely unless a greatly stepped-up stockpiling program, rather than immediate defense production needs, tends to aggravate bottlenecks.

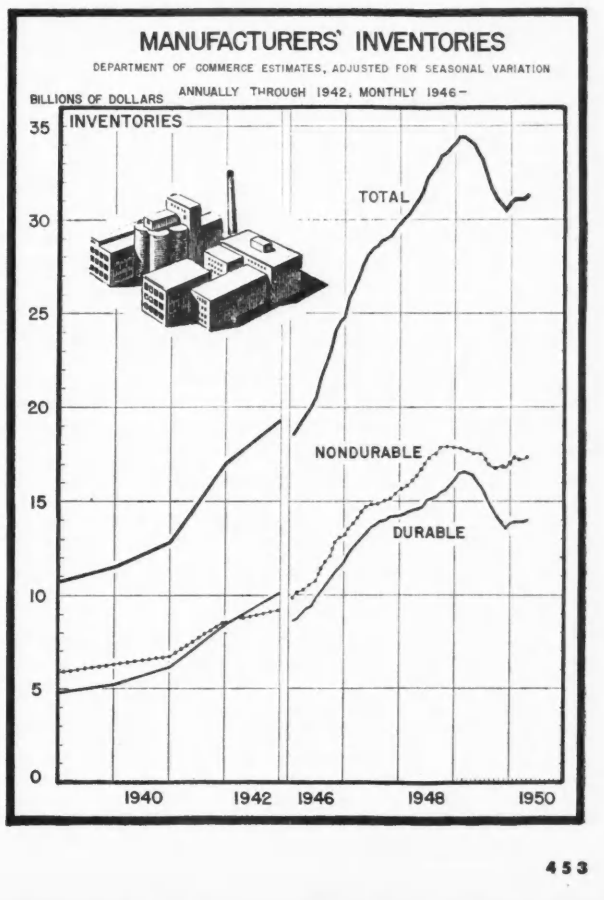
Big Slice To Go For Aircraft

As far as actual arms spending is concerned, a goodly share will go to the aircraft industry, already working on a backlog of close to $3 billion. This means pressure on the supply of materials needed for planes, notably aluminum and other metals, as well as for radar and radio which are important components of today's aircraft. The electronics industry may have to raise output for the military considerably; it can do so up to 20% without disrupting existing commercial production (notably TV) but



a higher boost may be required. In that event, TV output would certainly be affected, a prospect that in recent weeks has led to considerable weakness of TV shares. But it should also be remembered that the growth of the TV market had pretty much reached its peak, pending creation of new markets with the opening of additional telecasting stations. In the meantime, a slowing of TV sales was strongly indicated, hence strictly war impacts may not be as severe as currently feared.

Other billions will undoubtedly go into ordnance,



tanks, artillery, munitions etc., and it is this type of procurement which will likely create the biggest pinch. It is in these fields where allocation powers will probably be applied first, where the home front will feel the most incisive impacts. Most metals are in such short supply that even a nudge from military orders might feel like a shove. Thus even if there will be no great rush in spending the new defense appropriations, since it will take time to ready defense plants and specify types of materials needed, bottlenecks could be produced in short order.

When Bottlenecks Develop

In that event, the Administration will quickly use the sweeping and unconditional authority it is now seeking, and no doubt will get, though there is awareness of the need to interfere with the civilian economy only when this is actually necessary to assure defense procurement. That need, as already pointed out, should be limited unless the defense program is stepped up far more, and supplemented much faster than now indicated. Not only will it take time to spend the $10 billion, but their physical purchasing power today is considerably less than ten years ago. It will buy far less steel and other materials needed, and it will pay a considerably smaller amount of wages in defense industries. The overall impact thus will be lowered accordingly.

Semi-official estimates indicate that it may take two years to spend the full $10 billion though contracts could be let much more speedily. Because of the lag in starting production of such heavy weapons as tanks, probably not more than $3.5 to $5 billion can likely be spent on munitions in the coming year. A sizeable amount, but probably not more than $3 billion, will be required to boost the number of servicemen. Much of this will go for military "housekeeping," conflicting relatively less with the civilian economy.

How about manpower? Does boosting our armed strength by as much as one million men (the actual figure will probably be nearer 650,000) portend a serious manpower pinch reminiscent of World War II conditions? The answer is: It is not likely. Doubtless unemployment will decline to the practical minimum, and employment will reach a new peak. But our labor force is also greatly swollen, and the draft will mainly take younger men, many of them presently unemployed.

No Great Manpower Pinch Seen

Moreover, to the extent that civilian production will be reduced, manpower will be freed for arms work. On balance, then, labor requirements will not expand proportionately with munitions needs. Moreover, our actual labor reserve is considerably understated, since many are still working on a short-week basis. In other words, there is considerable "stretch" in the available labor force and to that extent, early strain will be minimized or avoided.

On the other hand, there is no question that the threat of inflation is acutely revived by the mobilization program. Even now, inflationary tendencies are getting up steam as scare buying, and precautionary forward buying by business, begins to make itself felt. And the trouble is that there is not much leeway anywhere. Industrial orders are being boosted on an overall basis because large users want to "get in line" for any future allocations or priorities that may be imposed. Plant expansion is being accelerated for the same reason. Hoarding is again rearing its ugly head. It constitutes the prime danger in the present situation.

Since all this may well account for greater dislocation and shortages in the near future than war production, price controls promise to become a hot political issue. Higher taxes provide one powerful antidote, but tax legislation will at best be slow. Credit restraints are another but there is no assurance that they will be quickly effective if the hoarding mentality and scare buying persists. If prices get further out of hand, if industrial costs are boosted by rising raw materials, action will become urgent if defense costs are to be held down and new inflationary spirals avoided. Consumers are not the only ones interested in the cost-of-living. Companies with wage scales tied to fluctuations in living costs are just as concerned about prices as housewives. And so must be the Government whose objective is to carry out the procurement program at a reasonable cost and without disrupting the efficient functioning of the economy. Possibly the inflationary impulses currently in evidence may weaken under a more realistic appraisal of the impact of mobilization. If not, price controls are inevitable and necessary.

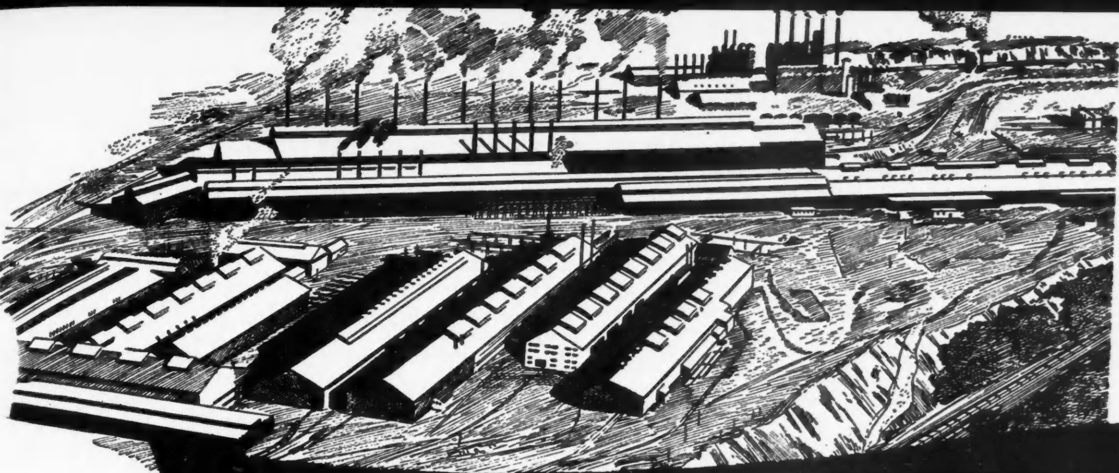
For the longer the price stimulus lasts, the more likely it will spread to other areas. In this connection it can be argued that the net increase in Government spending during the balance of the year will not be so great, if weighed against the prospect of some slow-down in the civilian economy. It may thus work more as a counter-deflationary force than a strong outright inflationary factor provided that unnecessary hoarding and inventory accumulation stops.

Limited But Sweeping

Economic controls sought by the Government have been described as limited simply because they are less complete than those employed in World War II. But let's make no mistake: They are nevertheless sweeping. "The power to allocate materials and facilities in such manner, upon such conditions and to such extent as the President shall deem necessary", potentially gives the Chief Executive great power over industry and agriculture. Its only limitation is a prohibition of its use for rationing consumer goods at the retail level.

There is a widespread and well-founded belief that it may be necessary to allocate only a few vital materials such as steel, copper, lead, zinc and certain chemicals and building materials, but the terms of the provision is broad enough to include almost everything. Chances are such power will not be used unnecessarily or indiscriminately. Essentially, however, the whole program of limited mobilization must be appraised in the light of the background against which it is projected.

A stand has been made against further Russian aggression and the Government has made it clear that we are in it to the finish. It may be long drawn out and expensive, and there is no telling where it may lead. While total war does not appear imminent or probable at this time, since our firmness may have the very effect of forestalling a major conflict, we must be prepared (*Please turn to page* 496)



Industries and Companies to *Benefit From Defense Spending*

By WARD GATES

Throughout the stock market's drastic decline following the outbreak of the Korean war, a new pattern of investment thinking has been clearly developing. Fears of controls and production restrictions, fears of credit curtailment, fears of an excess profits tax have all been playing their part in shaping the market's course but they have also produced, as yet in the most tentative manner, a new selectivity which contrasts sharply with the old selectivity that characterized the market upswing of the past.

The foremost question is of course to what extent the country will be forced upon a war footing and into a war economy even in the absence of any immediate danger of a widening of the conflict into a direct clash with Russia, and what the impacts of a state of heightened preparedness will be. In attempting to appraise prospects in the absence of definite knowledge of what may be in store, the market is naturally groping, but certain lines of approach stand out. One is to single out groups that would be little affected by whatever events may bring, with emphasis on those whose products or services will be greatly in demand under war or mere preparedness conditions. Another is the degree of vulnerability to revival of the excess profits tax.

While EPT is not thought immediately likely unless a major war develops, its revival even under limited mobilization is not entirely dismissed since it is recognized that the cost of a prolonged "little war" will be substantial. Thus preliminary thinking on possible effects of EPT is widespread among investors and has produced sharp contrasts in group action.

Expectations are that a tax pattern similar to that in World War II would be followed with a new base period being used, perhaps 1946-49. If so, best situated would be industries such as the railroads and old line companies which have not experienced much growth in the postwar period. Hardest hit would be those which made spectacular earnings gains in recent years. This could be particularly true of the television industry, hence the pronounced weakness of TV-shares, and to a lesser extent of automobile, chemical and electric utility companies, recently likewise under considerable pressure on that score. By way of contrast, the rails stood out for excellent resistance and even strength, while the rest of the market slid off.

Individual investment specialties also came in for attention in appraising tax bases for EPT, hence weakness in such shares as American Can and United Fruit despite excellent current and prospective earnings. Pressure on American Telephone & Telegraph shares unquestionably reflected doubt what an EPT might do to the dividend coverage, already none too ample.

The case of the utilities, however, needs qualification. It is possible, in view of the billions spent for postwar expansion, that greater use would be made of the invested capital provision which moreover might be liberalized. Generally, also, as far as possible revival of EPT is concerned, it is questionable whether any rates imposed would be too stiff without total war being under way. It is one reason why any appraisals of this nature must necessarily remain highly tentative pending definite developments.

Attempt to Define New Business Pattern

Preoccupation with EPT is not, however, at the expense of attention to other considerations, particularly those with a bearing on production and demand potentials under prospective conditions of a limited war economy. In this respect, too, the stock market has been expressing preliminary opinions.

Strength of the rails is predicated not alone on

lesser vulnerability to EPT but on the thought that they should do well under whatever conditions may prevail. Railroads generally show their highest earnings during periods of stable prices and wages and a high rate of industrial activity. Such conditions are likely to prevail in an economy based on heightened military preparedness with the western roads probably outstanding beneficiaries, hence their recent market strength. Traffic volume is likely to be high and there is hope, at long last, of future labor peace following recent presidential interference in the latest rail strike under the impact of Korean developments. Thus rails, friendless for a long time, have suddenly become favorites in an otherwise nervous and highly depressed market.

Aircrafts, Sugars, Strong Spots

Firmness in the aircraft group is natural, since aircraft manufacturers will be called upon to maintain a high production rate so as to build up our air forces, already playing a major role in the hostilities. Many aircraft shares appear underpriced in relation to earnings which can reasonably be expected under forthcoming conditions, though the full earnings potential will be determined by the profit margin permitted on Government contracts and by the tax status of the various concerns. Aircraft shares should continue to do well.

Another firm group is the sugar group, laggards in the past but latterly gaining friends on rising sugar prices and the thought that existing surpluses might be more readily absorbed under prospective conditions, strengthening the price structure. It would be premature to anticipate sugar shortages such as existed during World War II but a reversal of last year's earnings decline is at least possible. A detailed study of prospects for the sugar industry is presented elsewhere in this issue.

Steel and non-ferrous metals are commodities for which huge and urgent demand is indicated under accelerated defense preparations. Already tight under current boom conditions, the supply of these basic raw materials may be nowhere sufficient to meet fully military and civilian needs, hence allocations and ultimate price controls may have to be resorted to. A stepping up of stockpiling of strategic metals is also indicated. All of which portends a high rate of operations and an excellent profit outlook for these industries, though earnings might ultimately be restricted by EPT. Both steel and metal mining companies should however enjoy a relatively favorable tax base.

Steel Priorities First to Come?

Steel production of late has toppled every record, yet the industry has been barely able to take care of unprecedented domestic demand, thus some side-tracking of civilian orders for military needs may become unavoidable. The President has asked for Government authority to establish allocations and priorities for essential materials and this power will doubtless be promptly granted. Steel is likely the first field to which it will be applied, since steel is the biggest bottleneck, with defense contractors getting priorities on mill shipments. Heavy military demand for steel and other basic materials is anticipated in the next 90 to 120 days.

War production requiring steel includes a great deal more than guns, tanks, ammunition etc. Orders for freight cars, trucks, trailers, pipelines and many other items may also be turned out ahead of civilian goods. There has been a revival of the program for building 100,000 freight cars, for instance, which alone would require 2.3 million tons of steel. It will mean a welcome pick-up in business for the rail equipment industry, but it also brings into question the steel supply for non-essential consumer goods industries.

Rail equipment builders as well as farm equipment producers, moreover, may be called upon to switch over, in part at least, to military work as they have done during the last war. Both have some idle production capacity which is well suited for the purpose. Some other heavy equipment and machinery lines should also benefit from defense orders, particularly those making hoisting and earth moving equipment, tractors, graders etc. Their potentialities in a limited war economy however need still be clarified; at present they are doing well already.

The oil industry is also well situated, with higher demand for both civilian and military purposes portending increased production allowables and firm prices. New moves in the supply situation will not be required unless the war situation becomes considerably worse, it is indicated. There is the possibility, however, that the military may ask for sharp increases in the output of high-octane aviation gasoline. Since most refiners have "standby" orders for just such an eventuality, they can be made effective at any time. Potential demand for oil products, should the Korean war be prolonged or deteriorate into wider conflict, is huge, but in that event, EPT may likewise tend to restrict profits, though oil companies, too, are relatively well situated from a tax standpoint.

Why Chemicals Have Been Weak

Chemicals, though considered a major war industry, have been acting poorly marketwise—almost as poorly as television shares, not only due to the belief that they would have a poor tax base in the event of revival of EPT but also because of indications that stepped-up defense preparations will mean some disruption of normal and more profitable business for consumer markets. Apart from that, certain reconversion moves may prove necessary, it is thought. Thus the increase in synthetic rubber production is likely to interfere with output of polystyrene plastics by Monsanto and Dow Chemical which has bolstered earnings considerably. Moreover, there are shortages in such basic materials as benzene, toluol, alkalis and ammonia, and rather limited supplies of sulphuric acid, styrene, ethylene and other items that might soon be required for defense. The looming diversions may be difficult for some companies and a period of transition may be unprofitable for some and not as profitable as previously anticipated for others. Once transition is completed, however, the chemical industry's outlook in a war situation should be favorable though EPT is bound to restrict earnings.

The initial effect of the approach of a war economy may well be an acceleration of the consumers' urge to buy because of fear of possible shortages later on. In a mild way, demand for autos, tires and some other products has already been stimulated on that score with the tendency to "go ahead while buying is possible." Still there is no evidence to-date of any great buying rush; most durable consumer goods

are in great demand even without the war though appliance makers feel that the current boom has just about run its course. Not so in automobiles where no signs of weakening demand have yet appeared.

Nevertheless, motor shares have been conspicuously depressed in recent markets. One reason, as already mentioned, is the possible impact of EPT. Another is doubt whether there will be enough steel to carry on large scale automobile production. So far auto makers see no big arms orders; any military work they are doing is of long standing and only little has been added to that recently, mostly for replacement units.

Typical is an order for 8,350 new jeeps to cost $22.2 million recently received by Willys-Overland. That's a big order, but negotiations for it began fully six months ago. Reo Motors got an army order for about 3,900 trucks at a total cost of about $24 million. Studebaker got another sizeable army truck order. But all this is relatively small potatoes compared with the auto industry's huge civilian production and any threat of its interruption or curtailment, because of materials supply difficulties, naturally has important profit implications, quite apart from what EPT might do to earnings.

A straw in the wind is that Ford, for instance, because of steel shortages has already been compelled to eliminate Saturday assemblies at some plants. Because of the extreme tightness of steel and its basic importance to war production, steel allocations are almost certain and since the auto industry is a large steel consumer, its supply is likely to suffer. Civilian cars after all are not 100% essential and some output can be sidetracked. Additionally there is every prospect of a tightening of consumer credit to dampen the durable goods boom. This is bound to hurt auto sales, much the larger proportion of which has latterly been on very liberal instalment terms. It is considerations such as these which have put pressure on motor shares. In case of total war, the motor industry would of course again become a leading war producer, but not before a conversion period which might be rather expensive. Meanwhile steel allocations may automatically regulate vehicle output.

What About Building Shares?

Building shares, too, suffered a sharp drop from bull market highs though the construction boom is roaring on and new homes, even those that recently proved "sticky", are snapped up on the war news. A limited war economy might have no significant impact on the immediate trend of the building boom, apart from temporary acceleration and possible further rise in materials prices. A major war would make all the difference in the world. In that event no further new private construction could be started; materials would be allocated on a priority basis and construction activity generally would depend entirely on the exigencies of modern war. Then there would also be EPT.

Even should the present emergency remain a minor one, builders are wary of the future. Selective credit controls, aimed chiefly at consumer and mortgage credit, are in the offing and this will automatically curtail new residential housing starts. Demand might be further deflated if the draft takes big bites. Limited allocations are in prospect.

Imposition of credit controls will of course affect the business of the finance companies, hence recent market weakness of their (*Please turn to page* 494)

Companies Likely to Benefit From Defense Spending

	Net Per Share			Dividends				
	1948	1949	1st Quar. 1950	1949	Indicated 1950	Yield† %	Recent Price	Price Range 1949-50
Aluminum Co. of Amer.	$ 7.66	$ 4.45	$	$ 2.00	$ 2.00	3.4%	58½	61¼-45½
Anaconda Copper	6.16	3.14	.91	2.50	2.00	6.5	30⅜	35¼-25⅛
Armco Steel	7.96	7.68	2.98	2.50	3.00	8.6	34⅞	39⅞-19½
Bendix Aviation	5.33	5.24(b)	1.79(c)	3.50	3.50	7.8	44¾	47⅞-26
Bethlehem Steel	9.36	9.68	2.50	2.40	3.50	9.4	37	39⅜-23⅛
Boeing Airplane	1.59	4.08	1.28	2.00	2.50	8.6	28¾	31⅝-17⅝
Caterpillar Tractor	3.66	4.89	3.32(g)	1.75	2.50	6.3	39½	44⅝-26⅛
Consolidated Vultee	(d)5.16	1.60	1.27	......	.50(a)	3.2	15⅝	17½- 8
Continental Oil	11.24	7.48	1.69	4.00	4.00	5.8	68½	71¼-47⅝
Douglas Aircraft	9.72	9.19	1.55	9.25	8.00	9.8	81	83¾-48⅝
Grumman Aircraft	2.39	3.19	......	2.00	4.00	13.8	28⅞	30 -15⅛
Lockheed Aircraft	5.80	5.10	......	2.00	2.00	6.6	30	32⅞-16⅛
Mack Trucks	1.56	(d)2.71	(d) .11	......	......	....	14⅜	15⅝- 9½
Motor Products	7.33	6.97(f)	7.50(e)	2.00	2.50	7.1	35	41⅜-16½
Phelps Dodge	10.30	6.85	1.43	4.00	4.00	8.2	48⅝	53⅛-36¼
Republic Aviation	2.19	.87	.36	......	.50	5.2	9⅝	10½- 4¾
Republic Steel	7.61	7.54	2.75	3.00	4.00	11.7	34	38⅝-17
Reynolds Metals	7.07	4.20	1.11	1.10	1.00	4.4	22⅜	24⅞-18⅞
Richfield Oil	4.19	5.11	.89	2.50	2.50	6.0	41⅞	48⅞-24¾
Shell Oil	8.27	5.67	1.64	3.00	3.25	7.6	42½	44¾-30
Southern Pacific	10.26	8.07	3.10(g)	5.00	5.00	9.1	55	58 -32½
Southern Railway	12.52	6.87	3.43(g)	4.00	3.50	9.6	36	41 -25⅛
Sperry Corp.	4.32	2.62		2.00	2.00	6.9	28⅞	29⅝-22¾
Square "D" Corp.	2.71	2.29	.69	1.40	1.40	8.7	16	19½-13½
Union Oil of California	6.51	3.69	.31	2.37	2.00	7.6	26⅜	32⅜-24⅝
Union Pacific	14.24	10.26	3.34(g)	6.00	6.00	7.0	85½	89½-73¼
United Aircraft	3.06	3.31	1.19	2.00	2.50	8.2	30⅛	31¾-20⅛
U. S. Steel	4.00	5.39	1.64	2.25	3.00	9.2	32⅜	37 -20¼

† Based on indicated 1950 dividends.
(a) Paid one-tenth of a share of Airfleets Inc. on March 31, 1950.
(b) Year ended Sept. 30, 1950.
(c) 3 months Dec. 31, 1949.
(d) Deficit.
(e) 9 months March 31, 1950.
(f) Year ended June 30, 1949.
(g) 5 months ended May 31, 1950.

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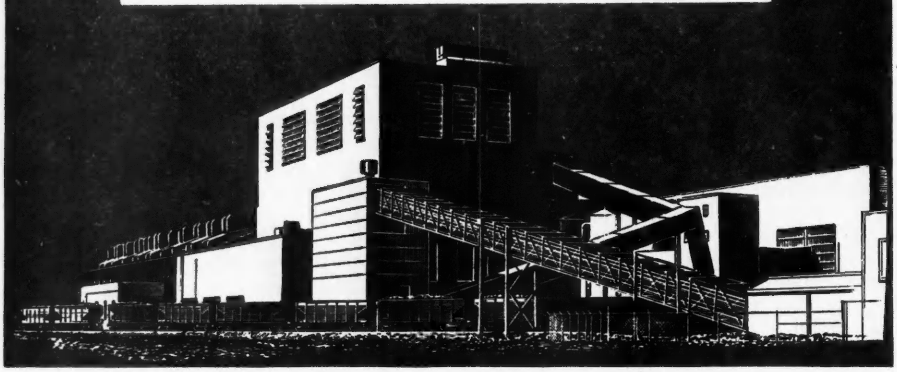
Second Quarter Reports *and* Prospects Under Partial War



By J. C. CLIFFORD

Second quarter earnings reports are beginning to appear in volume. As has been widely anticipated in the recent period of exceptional industrial activity, they frequently reveal a very encouraging uptrend in net earnings compared with a year earlier, and often in relation to more recent quarters.

Especially interesting is evidence that the earnings gains thus far reported are spread over many different groups. although leaders in a few special divisions have forged ahead more notably than in others. As usual, instances come to light where some companies have fared poorly, with earnings running counter to the general uptrend, but strikes or other special circumstances often account for the variation. While the number of interim reports available to date is limited enough to prevent general conclusions, individual company experience highlights the satisfactory results in most major industries.

Now that international complications and resultant Government action seem certain to affect the outlook and potentials of many industrial concerns, second quarter earnings must be closely scanned in each case to determine how valid a clue they furnish in appraising operations during the balance of the year. Increased military orders, allocation of raw materials, price trends in the making, credit restrictions and other inflationary curbs, plus possible shifts in market potentials, are among factors that may influence corporate operations in the second half. At this early stage, most of these factors are obscure, but once they become clarified they may indicate either benefits or handicaps to near term progress. The virtual certainty of higher corporate taxes will rise further complicates the picture, although the impact may not be felt until after the turn of the year.

On the appended table we present statistics pertinent to a number of concerns that have reported second quarter sales as well as earnings. If we included others that at this writing have revealed their net income per share only, our list could be somewhat lengthier, but this limited information would preclude presentation of net profit margins, an importan element in studying results. To make comparisons with previous quarters, we show net sales, net profit margins and net earnings per share for the second quarter, the preceding three months and for the first quarter of 1949. We will discuss a few of these situations in more detail.

In the chemical division, Mathieson Chemical Corporation reports sales of $20.2 million in the second quarter, an all-time quarterly record. Net earnings of $1.63 per share were only nominally higher than in the first three months, due to somewhat narrowed margins on the enlarged volume. Compared with earnings a year earlier, net advanced ten cents a share, but a volume gain of about 25% was needed to achieve this. Both sales and net earnings for the first six months, however, were the highest in the company's 58-year experience.

Arrangements For New Expansion

Last month, Mathieson completed arrangements to finance the new $27 million Mathieson Hydrocarbon Chemical Corporation, partly by a $17 million loan agreement with institutional investors and in part by reliance on current resources. Practically all of the alkali products which the company manufactures are essential in peace and certainly of vital importance to the defense effort, the management points out. Hence it would seem that continued high volume can be counted on, but whether net profit margins of at least 10% will prove dependable remains to be seen, especially when taxes begin to rise.

Another important chemical concern showing vigorous progress is Monsanto Chemical Company. Volume of $53.5 million in the second quarter com-

pared with $38.4 million the year before and $49.1 million in the 1950 March quarter. In reflection of this steady uptrend, net earnings of $1.59 per share in the latest three months were more than double those a year earlier and compared with $1.26 in the first three months of 1950. From our table it will be seen that as quarterly sales expanded, net profits margins widened consistently from 9.1% early last year to 13.5% in the recent quarter, indicating efficient management. Depending on the scope of military procurement in the second half year, earnings of this concern may not continue to rise at their present rate, but under any conditions profits should prove satisfactory.

Greatly increased sales of refrigerators, ranges, freezers and other appliances, plus sustained high level sales of farm equipment, enabled Avco Manufacturing Company to report substantially better volume and earnings for the six months ended May 31 than in the same 1949 period. In this first half of the company's fiscal year, earnings of 67 cents a share contrasted with 35 cents the year before, a rate of gain closely in line with that of volume. It is notable that net earnings of 52 cents a share in the second quarter accounted for all but 15 cents of the total earnings for six months, though relative volume advanced only 60%.

Although rather surprisingly earnings from television manufacturing by the Crosley Division accounted for only a small part of the over-all gain, Avco plans to push activities of this subsidiary in the second half year. Problems may arise, though, if instalment credit terms are stiffened on most of the company's diverse output or allocations of steel tend to restrict production schedules. In other words, it may prove no easy matter for this concern to hold earnings at the level established in the second quarter.

In the steel industry, Acme Steel Company has been prompt in reporting on its second quarter operations. Net sales of $16.5 million were about 18% above the related 1949 period, attended by a 55% rise in net earnings to 85 cents a share. On a six months basis, the comparisons were favorable but slightly less impressive, with earnings of $1.66 versus $1.20 per share. The management advises that demand for its products is outstripping capacity and that it is allocating tonnage to customers, additionally expressing strong confidence over the future since the company's products serve industries whose output is important to both war and peacetime requirements. Regardless of the fortunes of war in the Far East, Carl J. Sharp, president of Acme, sees only good business in sight, and predicts that 1950 will prove a record year for his concern.

Rheem Manufacturing Raises Dividend

Results of Rheem Manufacturing Company have shown progressive improvement in the last year, with net sales of $15.5 million in the second quarter nearly 22% higher than the year before and 13% above the recent March quarter. Net earnings in the three periods cited advanced from 56 cents a share to 90 cents and then to $1.01. For the first six months of 1950, earnings of $1.91 a share contrasted with $1.09 reported in the comparable 1949 span. In reflection of improved conditions, the company has declared a quarterly divi- (*Please turn to page* 494)

Quarterly Sales, Profit Margins and Earnings of Selected Companies

	Second Quarter 1950			1st Quarter 1950			Second Quarter 1949		
	Net Sales ($ mil.)	Net Profit Margin	Net Per Share	Net Sales ($ mil.)	Net Profit Margin	Net Per Share	Net Sales ($ mil.)	Net Profit Margin	Net Per Share
Acme Steel Co.	$ 16.5	10.2%	$ .85	$ 16.0	9.9%	$ .81	$ 14.0	7.9%	$ .55
Admiral Corp.	57.0	7.5	2.16	46.2	8.9	2.08	29.5	5.4	.81
Amer. Tel. & Tel.	794.8(c)	11.0	3.13	762.1(c)	9.6	2.80	709.5(c)	7.5	2.20
Avco Mfg. Co.	60.3	6.1	.52	37.9	3.0	.15	35.2	4.2	.20
Barker Bros.	6.9	2.8	.49	6.5	2.3	.35	6.3	2.6	.41
Caterpillar Tractor	83.0	10.7	2.30	72.4	9.5	1.77	62.9	6.1	1.01
Container Corp.	34.0	7.3	2.41	31.9	7.1	2.20	26.8	6.1	1.56
Continental Steel	9.4	9.1	1.74	8.6	9.6	1.68	7.0	4.3	.61
Dr. Pepper	1.9(E)	11.2(E)	.30(E)	1.4	7.5	.15	1.8	11.4	.30
Duplan Corp.	9.0	4.7	.41	9.4	8.3	.66	8.6	.01	(d).05
Du Pont	311.5	20.7(E)	1.44	269.4	20.2	1.15	250.0	17.2	.90
Elliott Co.	6.8	5.9	.85	6.4	6.9	.95	6.9	13.5	2.48
General Portland Cement	5.9	27.5	1.59	5.8	26.2	1.47	5.4	25.6	1.38
Johns-Manville	48.9	12.6	1.97	39.5	9.9	1.29	38.1	7.5	.97
Lehigh Portland Cement	13.1	15.7	2.18	6.0	12.0	.75	11.3	15.2	1.82
Loews Inc.	39.3(b)	2.6	.20(b)	57.6(a)	5.7	.65(a)	43.4(b)	2.4	.20(b)
Martin Parry	2.4	1.3	.08	2.4	1.7	.09	3.5	9.9	.78
Mathieson Chemical	20.2	10.9	1.63	17.9	12.3	1.62	16.3	12.6	1.53
Mead Corp.	19.9	6.6	1.70	19.5	5.4	1.35	16.2	2.4	.41
Monsanto Chemical	53.5	13.5	1.59	49.1	11.8	1.26	38.4	9.1	.75
Motorola Inc.	34.5	......	2.97(E)	35.8	......	3.50	19.0	......	1.27
Mullins Mfg. Corp.	13.0	10.8	1.15	11.7	11.0	1.04	7.3	7.5	.45
National Cash Register	39.0(E)	......	1.50(E)	38.5	6.7	1.45	43.9	6.2	1.53
National Tea Co.	69.8(b)	1.7	1.51(b)	67.1(b)	1.4	1.26(b)	62.3	1.5	1.19
Reliable Stores	6.4	6.7	1.35	4.9	4.5	.69	5.7	6.7	1.16
Reynolds Metals	37.8	6.4	1.92	33.4	4.3	1.11	27.8	......	(d).04
Rheem Mfg.	15.5	6.6	1.01	13.7	6.8	.90	12.8	4.5	.56
St. Regis Paper	36.5	6.0	.39	34.3	5.8	.35	31.2	3.2	.15

(a) 16 weeks.
(b) 12 weeks.
(c) Operating Revenues.
(d) Deficit.
(E) Estimated.

WHO RUNS THE WAR?

By E. K. T.

PRIME QUESTION to be tackled by Washington before this country can settle down to concentrated attention on winning the battle for Korea is: who is going to run the war? Militarily, that's pretty well settled, for General MacArthur has the complete authority and confidence of the United Nations (although confidence appears to be the only major contribution by countries other than the United States up to now). On the home front President Truman appears jealous of his prerogatives as constitutional commander-in-chief and has made it clear that he intends to exercise them to the fullest. He takes the position it is his function to direct, others are to follow.

WASHINGTON SEES:

The Capitol has become reconciled to the fact that war in Korea will be long and costly, with the principal problem at present being that of logistics—how to get enough men and materiel on the grounds on time.

There isn't a highly placed military authority in the armed services of the United States who professes to see defeat as even a remote possibility. And they know that means total victory in the field, for the Kremlin will not permit the North Koreans to quit.

Except for air power, the United States was weaker when the 38th parallel was crossed than it was when the Japs showered bombs on Pearl Harbor. Military men have been hammering on the point of Russia's vast superiority in tank equipment and did succeed in obtaining funds to make a better one—but it is not yet in production. That's true of other items in the catalog of the much vaunted push-button warfare, and it all adds up to a woeful lack of preparedness for which there's enough blame to go around.

Aside from the ever-present danger that this will blossom into a third World War, there is less worry expressed at the Pentagon than the communiques are carrying to the man-in-the-street. Unlike the early days of the last war, there already is an American foothold in the area, a base from which striking power can be directed. General MacArthur is foregoing early recoveries against the day when men, guns and planes will be in sufficient number for consistent attack, the Pentagon chiefs explain. They're counting on his knowledge of tactics and of the theatre of action.

CONGRESS does not seem disposed to go along with the White House notion of absolute supremacy in the premises. While this aspect of the situation is little comfort to the GI's who are being plastered with everything Russia can throw into the conflict, technically there is no war. President Truman has numerous "emergency" powers, carryovers from World War 2 but how extensively he may employ them remains a matter for fine interpretations. Senator Taft and his GOP policy committee already have served notice that congress, too, has powers that must be respected. Bi-partisan parleys at the White House are helping, but aren't likely to resolve the whole issue.

UNQUESTIONABLY top man in civilian affairs regardless of whether Mr. Truman, Senator Taft, or a compromise controls, will be Stuart Symington, head of the National Security Resources Board. Fortunately he enjoys the esteem of both parties. If the war is long and hard, production and distribution controls are inevitable; they're being whipped into final shape now and they're more drastic than ever before. In the long run it makes little difference whether the White House or the Capitol fires the starting gun on civilian strictures, because Symington will carry on from that point in either event. Luckily there's all-around agreement there.

POLITICS still underscore the thinking of many of the top officials in Washington. Among members of congress there appear to be more part-time analysts working out the political effect of the conflict than there are devoting their attention to development of ways to bring on early victory. This country never has changed Presidents in the course of a war, it is reminded; but the election now commanding attention is next November's and only congress is involved. Truman is not likely to take an active part.

As We Go To Press

President Truman's first guess on the cleanup of the Korean shooting war was August 1. He didn't put it as a forecast, nor did he even mention a terminal point for the armed conflict, but the implication was as strong as a flat declaration. Here's how it came about: July 1 was the date on which transfer of the administration of Guam from naval to civilian authority was to take place. Guam is the only permanent naval base in the Western Pacific owned by the United States. The navy, naturally, is deep in the Korean-Formosan difficulty, advised against switching government against that background. President Truman announced he would postpone action "in the public interest"--until August 1.

A banker is the White House choice to head the mission that will make a much-needed economic survey of the Philippines. He is Daniel W. Bell, highly respected in financial circles, with neither political background nor aspiration, and unhampered by experience in the diplomatic corps. Bell, a career civil service worker in the government who moved up rapidly, was Undersecretary of the Treasury when he resigned to become president of a Washington bank.

Disintgration of the Philippine economy is causing grave concern here. The Treasury deficit is staggering, domestic reconstruction has been almost at a standstill, imports are greatly outweighing exports. That the political situation is the cause is well known. To find that answer would be too easy, and less convincing, if a political or a trained diplomat were to head the mission. So a banker was chosen on the theory that he would not be likely to have preconceived notions, would examine the economics of the case. That Bell can fail to come up with the report that the Philippines will not come out of the financial doldrums until they remedy the political situation, is hardly likely.

Contempt of congress has reached a dangerous stage and court opinions prove that the blame isn't one-sided. The lawmakers in some instances have overreached to the point that committee witnesses have been judicially upheld in their refusal to answer certain questions. Not often, but frequently enough to interfere with the normal processes of obtaining information "for legislative purposes." The result will be a series of early court decisions which should be helpful in setting the bounds beyond which congressmen may not go and protective of those called to testify, notably men of business and industry.

While it is a conceded fundamental right of any person to refuse to testify if he believes he may thereby incriminate himself, that escape has been abused. At least the Capitol Hill committees so claim. And they are preparing to test the issue in two score of motions for contempt citations. Most affect inquiries into subversive activities, but the list runs a broader gamut. Congress has a good winning record on making contempt citations stick in court actions, but the defeats have set precedents which, unless there is Supreme Court clarification, may make committee inquiries difficult.

National Security Resources Board is working feverishly on a program capable of switching the country from a peacetime basis to a wartime footing in the event the Korean situation develops into full-scale war with Russia. The plan basically is one of controls used in World War 2, with greater emphasis placed on "who works where"--manpower allocation. That was the weakest point in the last war's setup; admittedly it will be the toughest nut to crack if war comes again. And, naturally, it will give rise to the greatest inequities, the most important mistakes, and industry's biggest headaches.

Worry already is being expressed over a major sinew of the war machine, namely oil. Russia's first move probably would be seizure of Iran, rich in oil reserves, openly

friendly to the United Nations, financially obligated to the United States, and therefore ripe for an "incident." United Nations military aid already is there, but to an extent that is likely to prove more provocative than defensive. Russia already has warned Iran against unfriendly measures--the first step to military action, our armed forces chiefs believe. The Kremlin reserves the right to move troops into the little country, a carryover from the honeymoon days after the break between Hitler and Stalin.

Washington appears still torn between two notions in its approach to solution of the Korean problem: 1. To keep this country on an even keel economically and underplay the situation in the East (this has, in part, political motivation because Administrative policy toward Korea is under attack); 2. Prepare the public for the worst--possible Third World War. The latter approach undeniably would bring about national unity toward the objective of victory. But in the assessment of blame the political party in control might lose prestige.

Back of the senate's refusal to approve President Truman's reorganiaztion plan No. 24 to put the Reconstruction Finance Corporation under the Commerce Department were two causes: 1. Commerce Secretary Charles Sawyer has refused to kowtow to congressional committees and has made some enemies on Capitol Hill. 2. The congressmen don't want to let go of RFC until it has been subjected to searching investigation, preferred to keep it intact in its original form until that job was done.

Census Bureau reports on 1950 population are proving disturbing to the larger cities. There has been a terrific outward movement of population in the past decade and with the changing populace has gone a large number of the mercantile establishments. A preliminary study of the first 30 large cities showed they had averaged a 10 per cent loss in number of business houses since 1940.

Loss of business houses naturally means vacancies in high-tax paying real estate. This will lead to a movement on the part of larger cities to annex suburbs. Congress soon will be asked to start the ball rolling for the District of Columbia to embrace part of a northern Virginia county, and substantially all of two Maryland counties. Also being considered by the larger communities is adoption of a wage tax system, similar to the one in use in Philadelphia. Such a levy requires nonresidents to pay a percentage of their salaries to the city in which the pay envelope is packed. Because a checkoff system is involved and a receipt for the tax goes into the paycheck, such a levy, in effect, crosses state lines.

Rejoicing that the federal budget deficit for 1950 was well below the figures mentioned during the year, was premature. No matter how long the Korean crisis extends, it is certain that military expenditures will be stepped up. Furthermore, much of the cut in the deficit resulted from the fact that government agencies didn't sign checks as fast as was expected--but they eventually will have to issue those checks for a large part of the money is committed to pay for future delivery of goods and services which are "on order."

Rejection by congress of Reorganization Plan No. 27, to create a Department of Health, Education and Security was expected, yet is not easily explained. Physicians and dentists proved competent lobbyists in this instance but it appears that the immediate move didn't worry them nearly as much as the threat of further action. "Socialized medicine" was not part of the reorganization, but the men in white saw it as an entering wedge.

With the plan turned down, the Federal Security Agency still has about the same jurisdiction in fields of health, education and security as it would enjoy as a separate agency of Cabinet status. And Administrator Oscar Ewing remains as its director. He was an opposition target. Had the reorganization prevailed, the senate could have dumped him as nominee for the Cabinet. Now it can do nothing about Ewing.

Photos by Wide World

Danger Spots in . . . .

EAST-WEST CRISIS

By V. L. HOROTH

Looking at a map of the world and contemplating the 12,000 or so mile borderline dividing the democratic Western World from the communist-dominated Eastern World, one is apt to come up with the question: When and where will international communism strike next? For it seems that South Korea, like Czechoslovakia eleven years ago, will mark the beginning of a series of thrusts against the soft spots in the Western World's defenses.

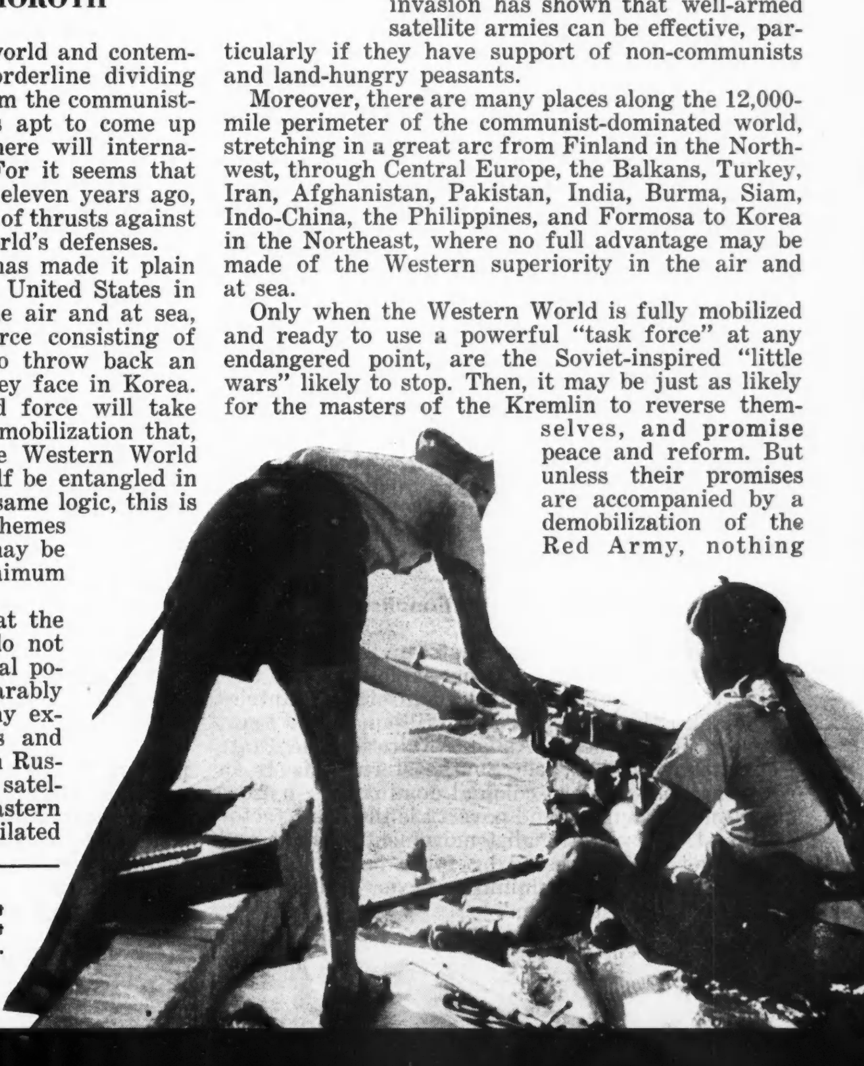
The invasion of South Korea has made it plain that the Western World, and the United States in particular, may be superior in the air and at sea, but they lack a well balanced force consisting of ground troops and tanks, able to throw back an equally balanced force such as they face in Korea. The building of such a balanced force will take time. It is during this period of mobilization that, in the Kremlin's calculations, the Western World is likely to be wary of letting itself be entangled in a third World War. And, by the same logic, this is also the time when some of the schemes of the masters of the Kremlin may be carried out with a relative minimum of risk.

There is reason to assume that the scheming men of the Kremlin do not want a general war. The industrial potential of the West is incomparably superior to that of the East. Why expose the newly rebuilt factories and cities of the Ukraine and Western Russia to atom bombs? Moreover, the satellite countries of Central and Eastern Europe are far from being assimilated—"digested." Why run a chance of losing them?

Apparently, in the Kremlin's calculations, the cold war can be won by a series of localized conflicts, "little wars," waged not by the Soviet Union directly, but by satellite countries which can always be "ditched" if a scheme miscarries. The Korean invasion has shown that well-armed satellite armies can be effective, particularly if they have support of non-communists and land-hungry peasants.

Moreover, there are many places along the 12,000-mile perimeter of the communist-dominated world, stretching in a great arc from Finland in the Northwest, through Central Europe, the Balkans, Turkey, Iran, Afghanistan, Pakistan, India, Burma, Siam, Indo-China, the Philippines, and Formosa to Korea in the Northeast, where no full advantage may be made of the Western superiority in the air and at sea.

Only when the Western World is fully mobilized and ready to use a powerful "task force" at any endangered point, are the Soviet-inspired "little wars" likely to stop. Then, it may be just as likely for the masters of the Kremlin to reverse themselves, and promise peace and reform. But unless their promises are accompanied by a demobilization of the Red Army, nothing



Next to Indo-China, ripest for communist aggression, Yugoslavia seems the most likely place for a coup by the Kremlin.

constructive will have been accomplished.

What countries, from the Kremlin's viewpoint, could be attacked with a resonable degree of success and without plunging the world into a third World War? Why, in view of American superiority in the air and at sea, was the first "small war" risked in Korea?

The two reasons that probably swayed the Kremlin into giving the green light for attack to its North Korean stooges was the deteriorating political and economic situation in South Korea. Only two months ago, the regime of President Syngman Rhee, dubbed "little Chiang Kai-Shek" by his opponents, was repudiated at the polls. Long before that, communist guerillas had operated in South Korea with considerable impunity and with the support, or at least neutrality, of people dissatisfied with the corruption and inefficiency of the Seoul regime. Four months ago, our own State Department warned Seoul to do something about the pernicious inflation undermining the South Korean economy.

Korean Economy Sapped by Division

Economically, the division of Korea has sapped the viability of both halves. In South Korea, with 20 million people packed into an area the size of Virginia, without great natural resources, and with trade with the neighbouring countries on the Asiatic mainland cut off, the economic pressure was not being relieved despite generous assistance in the way of food, fertilizer, and industrial equipment from the United States. There could not be a successful rehabilitation of either section as long as the country remained divided.

The Koreans, of course, have realized all this, and it is quite possible that the desire for unification of the country has been stronger than the fear of Russia or communism. Korean nationalism, violently suppressed by the Japanese for two generations, is a vital, explosive force; it has won Korea the name of "Asia's Ireland." As in other Asiatic countries, the communists have been clever "to ride the tide" of this dynamic nationalism, and to exploit it for their own purposes.

There have been other mistakes. The ill-advised withdrawal of American troops to nearby Japan, when they might just as well have been stationed in South Korea, was one. Then, the South Korean army, large on paper, has been suffering from a crippling lack of experienced personnel and modern weapons. Last but not least, irresponsible talk, official and unofficial, about the expendability of South Korea in the case of a third World War, was also an indirect invitation for invasion from the Kremlin's view point.

The New Asian Nationalism

The same problem that exists in Korea, how to prevent the communists from exploiting the new Asian nationalism, is also faced in other countries of Asia. In the words of Mr. William S. B. Lacy, director of Southeast Asian Affairs in the State Department, "the whole Southeastern Asia is in revolt against western colonial domination; nationalism and not hunger and poverty is the basic factor of unrest. These nationalist movements cannot and should not be suppressed by force . . . In Southeastern Asia the communists never peddle communism, but nationalism."

Photo by Wide World

Turkey's Dardanelles, age-old goal of Russian imperialist policy, constitute another vital danger spot in the battle between East and West.

As the former "colonial powers," the western democracies are in a difficult situation. Any reluctance to grant independence is usually seized upon by the communists who already masquerade, in such countries as Indo-China, Burma, and even Indonesia, as the champions of nationalism. On the other hand, the turning over of power to local governments has in most cases produced weak, unstable regimes, unable to hold their own against communist pressure. Luckily, in some countries such as Indonesia and the Philippines, the communists are relatively weak themselves.

One difficulty is that the new states, jealous of their newly-won independence, are reluctant to accept foreign guidance even in such non-political matters as the handling of anti-inflationary measures. The results have been disheartening all around. The Dutch businessmen and plantation owners in Indonesia, the French in Indo-China, the British in Burma, and even the Americans in the Philippines are discouraged about the future. Many of them are pulling out; others have lost their capital through inflation. How under these circumstances new capital will venture into these communist-threatened countries is something that only time will tell.

Is there a way out of this dilemma? Yes, there is. But the Western countries will have to have patience. Only through education, assistance, and economic stability can the countries of Southeastern Asia and the Far East be won over permanently to the West. In Malaya, for example, the British are building a mass of new schools, hoping that education and economic stability will prove to be

the best weapons against international communism.

Of all the countries of Southeastern Asia, the easiest to take over, from the view point of the Kremlin, would probably be Indo-China. It would also yield relatively the largest dividends. The communist empire would thereby gain control over important supplies of rice, coal, iron ore and vegetable oils, particularly needed by Red China; Russia could absorb all its tin and rubber. Moreover, the fall of Indo-China would endanger Siam, Burma, and economically and strategically important Malaya, the last piece of British real estate in Asia.

In Indo-China too, the communists have been "peddling nationalism and independence." And as in Korea, they apparently have some non-communist following. The reason for this is that the natives, the Vietnamese, are not fully convinced of the sincerity of the French promise of independence. Yet if the French armies should withdraw from the country, the French-trained forces of the French-sponsored regime of ex-emperor Bao Dai would have no more chance against the seasoned communist guerillas—probably reenforced by Chinese Reds by this time—than the South Koreans had against the North Korean invaders.

Solution in Indo-China is Difficult

Probably the only way to win over the non-communist nationalists would be the withdrawal of the French armies—now the only effective barrier to the spread of communism—and their replacement either by U. S. or United Nations forces. A public statement on the part of President Truman, guaranteeing Indo-China's independence, would also help.

No invasion or incident like that in Korea is necessary in Indo-China to start a "little war." The communists who hold about one-fifth of the country already, would simply step up their activity, presumably when the rainy season ends in a month or two. Extensive arms smuggling has been reported, and it is also known that South China airfields and highways are being modernized with the aid of Soviet technicians.

The chances of *Formosa,* now the seat of the Chinese nationalist Government, to withstand a communist invasion have improved markedly following President Truman's declaration that the island will be defended by the American Navy. The weakness of the Formosan position lies in the unpopularity of the Chinese Nationalist officials who are regarded by the islanders very much as "carpet-baggers." The Chinese officials have taken over industries and plantations but their efficiency cannot compare with that of the former Japanese rulers.

There is little communism among the natives. Though the Chinese Nationalist Administration has recently been reformed, the best way to prevent dissatisfaction among the islanders would be to place Formosa under an international trusteeship and have it occupied by United Nations troops.

The third weak spot in Southeastern Asia is *Burma.* The leftwing Government in Rangoon is weak, and though the area under its control has been extended during the past six months, the communists still hold important sections of the country. The trade, external and internal, and other economic activities are at a standstill. Economically, the country has slipped back a generation or two. A "little war" over Burma in the near future is quite unlikely. It would completely estrange Russia and India which is Burma's neighbour. An invasion of Burma by the Chinese communists would almost automatically be followed by Indian-British military intervention.

Siam has no direct border with the communist world and since the native communist movement is almost non-existent, there is no danger unless Indo-China or Burma are taken first. *Indonesia* does not seem to be in immediate danger either, but the new nationalist government has been ineffectual in attempts to bring about the recovery of the country. In *Malaya,* the Chinese communist guerillas have been terrorizing the countryside, interfering with normal economic activities. Considering their relatively small numbers, the communists bands, operating much like bandits, have given the British a disproportionate amount of trouble. Nationalism does not play a great role, and except among the Chinese, communism has made little headway on this strategically important peninsula.

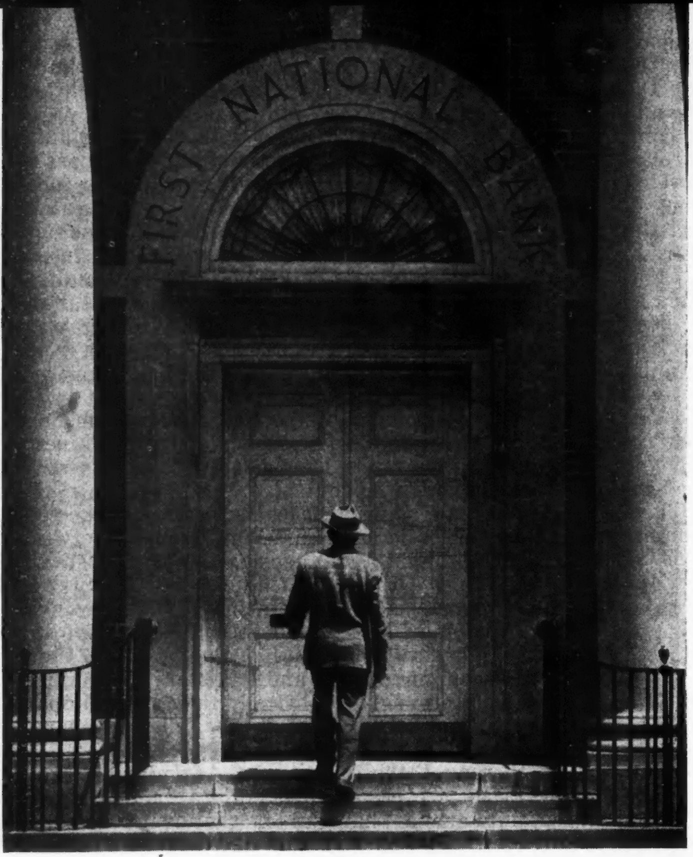
For the time being at least, it seems that the several thousand mile long East-West frontier between Burma in the East and Yugoslavia in the West will remain stable. Although a Chinese Red Army was recently reported to be "liberating" *Tibet,* the invasion of *India or Pakistan* across the "roof of the world" is physically impossible. Furthermore, there is no fifth column; Indian and Pakistani communists may be vociferous, but politically they are unimportant and are likely to remain so, unless economic conditions should deteriorate.

Further west, the frontiers of *Afghanistan, Iran, and Turkey* are easier to negotiate, but there are no satellite armies that could be sent over the border to invade them. Some Persian and Turkish speaking people in the Soviet Union are organized in the Tadzik and Azerbaijan Soviet Republics, but they are none too reliable for the job. Considering the mineral wealth of Iran, and its tremendously important strategic position—it is a pivot linking the western and eastern part of the non-communist world—its invasion would bring on automatically a third world war, which the Kremlin is anxious to avoid.

Similarly the invasion of Turkey which would unquestionably give a good account of itself fighting its traditional enemy, and which could be effectively supported by us from the air and by sea, would be followed by a general war. Afghanistan, the smallest of the three mid-eastern countries cited, could probably be invaded with impunity. However, as in the case of Burma, such an act would unquestionably be followed by a break with India which Russia cannot afford to risk as yet.

Iran—A Ripe Plum?

There is a danger, however, that vitally strategic Iran may fall like a ripe plum to the Soviet Union without military operation if social reforms and a halt to economic deterioration are not soon accomplished. In recent months, a poor grain crop, followed by business failures and widespread unemployment has been followed by a new outbreak of communist activity. Technologically, socially, and politically, Iran is still in "the late middle ages." Yet the political and economic reforms which the young Shah has been pressing for, especially since his return from America, are resented and resisted by powerful, feudal landowners and tribal chieftains who have for genera- (*Please turn to page* 490)



BANKS at Mid-Year

By J. S. WILLIAMS

A relatively minor decline in bank stock prices in the wake of the Korean incident began indicates the confidence with which these shares are regarded by conservative investors. Unusually stable earnings and a trend towards somewhat more liberal dividends, not to mention preeminently sound finances, lend no small measure of investment appeal to this medium. There are several elements in the outlook for the second half year that should give an encouraging tinge to banking operations, strengthening the merit of leading bank shares when portfolio readjustments may be under consideration.

In reflection of the record industrial activity during the first half of 1950, together with a sustained uptrend in national income, bank deposits in the aggregate have increased. Adding to the net inflow of funds has been the recourse of the Government to deficit financing in recent months, mainly effected through offerings of Treasury issues in excess of current redemptions.

Conditions have changed markedly from a year ago, when recessive influences affected banking operations. On a country-wide basis, according to the Governors of the Federal Reserve System, demand deposits of their member banks at midyear were $1.85 billion higher than a year earlier; time deposits except those of the Government were up $219 million, and U. S. Government deposits were higher by $1 billion.

Considerable shifts in earning assets of the banks have resulted in the course of a year. On June 28, net loans of approximately $13.6 billion were up $1.69 billion, but rather surprisingly only $425 million of the gain was accounted for by commercial, industrial and agricultural loans. Real estate loans, though, expanded by $561 million, loans to banks rose $113 million, while "other loans" advanced $927 million. Loans to brokers and dealers for carrying or purchasing U. S. Government obligations shrank by about $140 million. Holdings of various Federal issues rose $2.48 billion, with a rise of $5.6 billion of Treasury notes partly offset by a decline of about $4 billion in Treasury certificates of indebtedness and longer term Government bonds. Investments in other securities were $1.18 billion higher. To fill the gap, holdings of Treasury bills rose $835 million. These impressive shifts reflected the desire of the banks to keep their available funds at work in the most profitable manner.

This national picture, however, is somewhat distorted by varying conditions between the New York area and other sections of the country. Earnings of the large Eastern banks, while for the most part trending moderately upward, have not risen quite so substantially as those in California, the Midwest and South, where consumer credit and real estate mortgage loans have expanded at a faster rate. The large New York banks conduct business on an international scale, and also account for a very substantial portion of Treasury disbursements, interest payments, redemptions and general financing. From week to week, their operations and earning assets are in a state of constant change.

On July 1, the deposits of the New York banks were almost without exception slightly lower than at the start of the year, though higher than at mid-1949. Virtually all of these institutions reported very stable net income with net earnings (after allowing for security gains and losses) usually revealing a moderate uptrend. For the week ended July 5, trade loans expanded for the fifth consecutive time, establishing a total of $150 million for the five-week period—an increase of $140 million over the same interval the year before. As the prospect of continued high level business activity for the remainder of the current year is good and seasonal accumulation of inventories is still ahead, bank revenues in the second half year from trade loans may expand somewhat, and the same holds true of installment and real estate loans.

Easy conditions in the money markets enabled the banks to attain a very comfortable reserve position at mid-year in the New York area. As of July 5, total surplus reserves amounted to $120 million in contrast to a temporary deficiency of $70 million in the preceding week. As shown in the appended statistical table, the inherent strength of the leading bank positions continues to be abnormally fortified by the large proportion of earning assets repre-

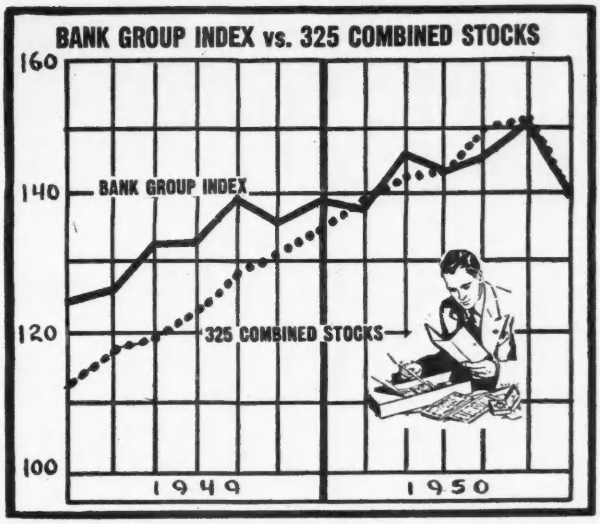
sented by holdings of Government securities, constituting an average percentage of more than 37%.

In addition to this near-riskless status, the banks in postwar have consistently marked off many doubtful accounts and fully absorbed security losses taken. Bank failures throughout the nation have been virtually nil for several years past. For all these reasons, plus the fact that most of the leading institutions have paid dividends without interruption for many decades, the savings banks in Massachusetts in April were permitted to purchase certain banks stocks for their trust account portfolios.

Looking ahead into the balance of 1950, earnings potentials of the banks are enhanced by the prospect that their operating costs will prove fairly stable and that large scale installation of cost-saving office equipment will bear fruit. In the course of a year, service charges here and there have been moderately increased and now embrace a wide range of activities. If military production is stepped up as it probably will be, revenues from expanding business loans may mount, while rising income from larger Government borrowings may also enter the picture. During the last year, non-bank investors have absorbed large amounts of Federal obligations and undoubtedly this trend will be encouraged by Washington, at least for a time.

It is always possible, though, that the Government may have to return to the banks for major assistance in financing budgetary requirements, in which case the increased funds needed can be supplied by the banks as mere paper credits. In such circumstances, though, the banks would not be immune to any attending rise in taxes likely to follow throughout the economy. In other words, the inherent strength of bank positions would become even more impressive than now, and their earnings could be more stable, than ever, but no important improvement in earnings could be expected.

Let's examine the recent progress of a few leading banks and their balance sheets at mid-year. Deposits of Chase National Bank rose to $4.29 billion as of June 30 from $4.22 billion at the end of March, but were $86 million lower than at the start of 1950. During the first half year, holdings of Government securities were reduced by about $148 million, while investments in state and municipal bonds rose $61 million. Net earnings for the first six months



equalled $1.39 per share compared with $1.23 a share in the first half of 1949, after allowing for profits on securities in both instances. The investment policy of Chase National is ultra-conservative, with an average call maturity on Federal obligations held to less than two years, despite the smaller return involved.

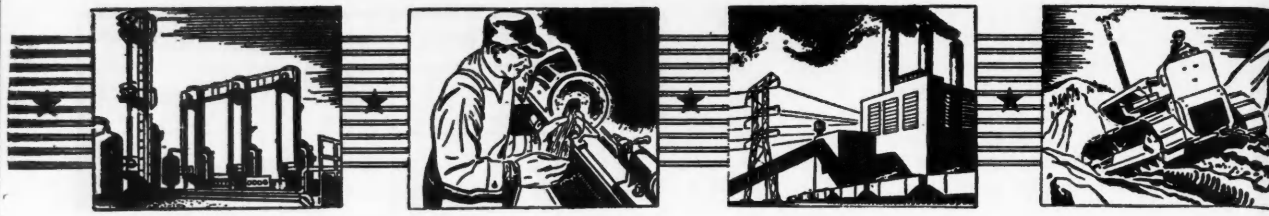
How soundly the operations of this long established banking institution have been conducted for many years is well shown by an unbroken dividend record since 1879. Dividends at the current quarterly rate of 40 cents a share are widely covered by earnings, leaving room for some improvement in distributions as time passes. Chase National Bank shares, recently quoted at 37, have a book value of $47.27, and yield 4.3%.

How stable the earnings of the Guaranty Trust Company are is shown by a net per share of $9.40 in the first half of 1950, exactly as in the same period last year and compared with $9.18 in the first six months of 1948. The bank's total resources on June 30 were about $68 million less than a year earlier, but compared with March 31, 1950, showed a gain of about $148 million. Holdings of $1.07 billion in Government securities were almost unchanged from the year before. Deposits (*Please turn to page* 487)

Statistical Data on Leading Bank Stocks

	Book Value Per Share 6/30/50	Book Value Per Share 12/31/49	Deposits 6/30/50	$ Mill. 12/31/49	Total Assets ($ Mill.) 6/30/50	% of Total Assets U. S. Gov't Securities	% of Total Assets Loans & Discounts	Net Per Share 1949	Net Per Share 1st Half 1950	Div. 1949	Recent Price	Div. Yield
Bank of Amer. N. T. & S. A.	$ 16.71	$ 14.94	$5,919	$5,775	$6,515	27.7%	44.3%	$ 5.09(b)	$ 1.41	$ 1.25(e)	23¾	5.2%
Bank of Manhattan	31.97	31.55	1,069	1,127	1,170	27.6	36.5	2.11(a)	1.21(a)	1.30	26½	4.9
Bankers Trust	56.06	55.72	1,338	1,431	1,531	34.0	37.4	3.09(a)	1.33(b)	1.80	46½	3.8
Central Hanover	127.85	126.85	1,399	1,448	1,551	41.8	27.2	7.82(b)	3.00	4.00	98	4.1
Chase National	47.27	46.67	4,298	4,384	4,697	35.5	29.9	2.63(b)	1.39(b)	1.60	37	4.3
Chemical Bank & Trust	46.03	45.45	1,390	1,449	1,552	32.9	30.9	3.18(a)	1.43(a)	1.80	42	4.2
Continental Illinois	99.31	97.71	2,114	2,348	2,319	55.0	14.5	6.89(a)	—	4.00	94½	4.2
Corn Exchange, N. Y.	63.15	62.04	742	766	792	58.6	9.9	4.79(b)	2.61(b)	2.80	62	4.5
First National of Chicago	212.83	205.72	2,194	2,278	2,380	42.1	29.6	12.48(b)	—	8.00	230	3.4
First National of N. Y.	1,417.80	1,417.43	627	599	775	40.7	20.0	81.56(b)	40.37(b)	80.00	1265	6.3
Guaranty Trust	373.97	370.57	2,335	2,299	2,764	39.0	35.5	17.68(b)	9.40(b)	12.00	293	4.1
Irving Trust	23.82	23.60	1,068	1,052	1,205	36.2	33.6	1.38(a)	.62(b)	.80	18½	4.3
Manufacturers Trust	62.21	60.87	2,100	2,281	2,271	44.3	25.5	4.84(a)	2.55(a)	2.40	57	4.2
National City of N. Y. (c)	54.02	53.30	4,688	4,781	5,095	38.2	26.2	3.65(c)	1.69(c)	1.80	43½	4.1
New York Trust	112.67	111.20	687	627	763	41.2	31.9	5.38(b)	3.46(a)	4.00	90½	4.4
Philadelphia National	88.30	87.24	692	687	762	41.1	19.7	6.94(b)	—	5.00	99½	5.0

(a) Net Operating Earnings.
(b) Net Indicated Earnings.
(c) Including City Bank Farmers Trust Co.
(e) Plus Stock.



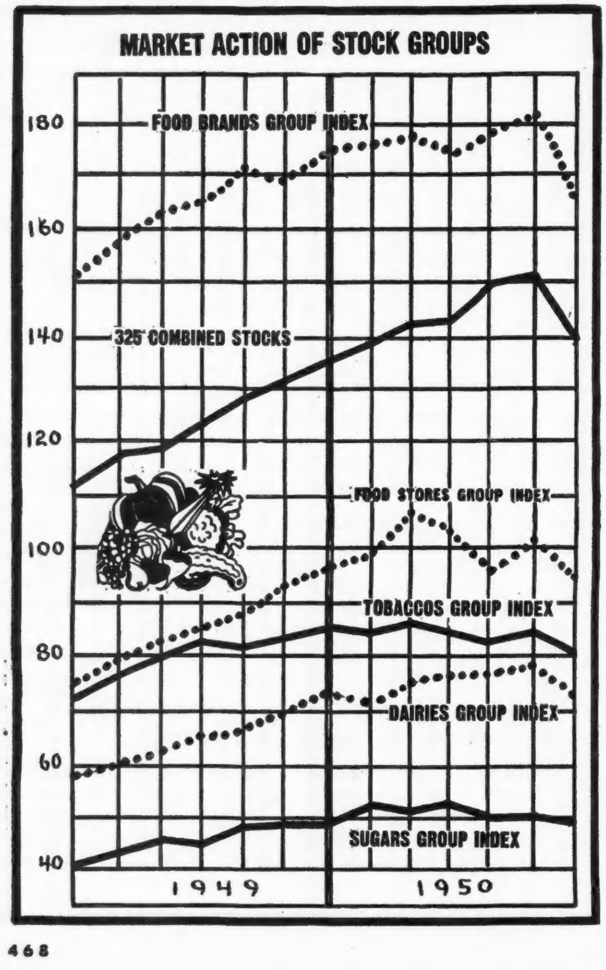
1950 Mid-Year Re-appraisals of Values, Earnings and Dividend Forecasts In a Mobilized Economy

★ ★ ★

Prospects and Ratings for Food and Dairy Stocks, Sugars, Tobaccos and Bank Shares

Part I

The outbreak of the Korean war, its immediate and longer term repercussions and the ever-present threat of a widening of the conflict—and the need to prepare for it, will have far-reaching impacts on our economy, injecting new uncertainties which already have led to important changes in investment thinking. The foremost question, which may not be answered immediately, centers on the extent to which events will force us into a progressive war economy, with all that it would mean in terms of restrictions and controls, higher corporate taxes and revival of the excess profits tax, as well as many other changes that might flow from a move towards at least partial economic mobilization.

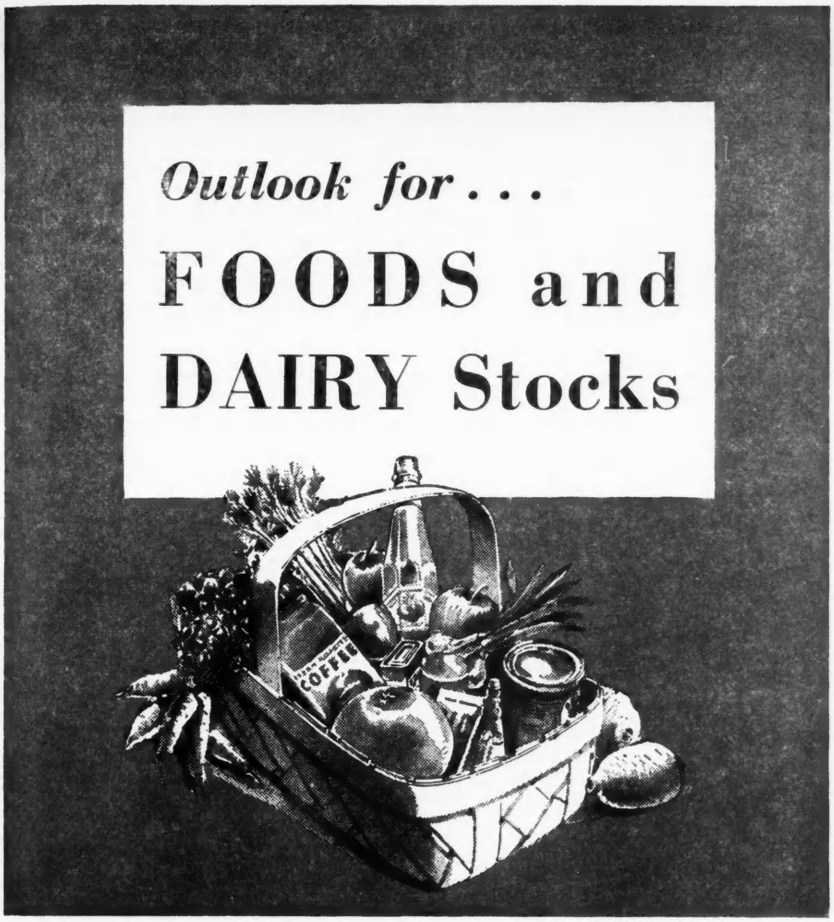


The cost of even a "little war" and resultant demands on the economy will be substantial. Since these will be superimposed on an already booming industry, inflation pressures may grow and production shifts in various areas may be required.

To assist our readers in arriving at sound investment decisions in the circumstances likely to prevail, and in realigning their policies with the selectivity dictated by varying industry prospects under changing conditions, The Magazine of Wall Street in addition to its regular coverage of important developments at this time presents its Mid-Year Security Re-Appraisals and Dividend Forecasts with particular emphasis on the strategic position of individual industries in a mobilized economy, outlining potential impacts of war and preparedness planning, vulnerability to excess profits taxes, as well as basic factors in operation.

The key to our ratings of investment quality and current earnings trends of the individual stocks—the last column in the tables preceding our comments—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For example, A1 denotes a stock of high grade investment quality with an upward earnings trend.

Stocks marked with a "W" in the tabulation are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter "X." *Purchases for appreciation should of course be timed with the trend and investment advice presented in the A. T. Miller market analysis in every issue of this publication.*



Outlook for . . . FOODS and DAIRY Stocks

By GEORGE W. MATHIS

The huge and complex industry represented by food processors progressed fairly well in the first quarter of 1950 and probably repeated the experience in the second quarter. At midyear, prospects augur well for satisfactory operations in the final six-month period, although the outlook for various branches of the industry, as well as for its numerous components, necessarily varies.

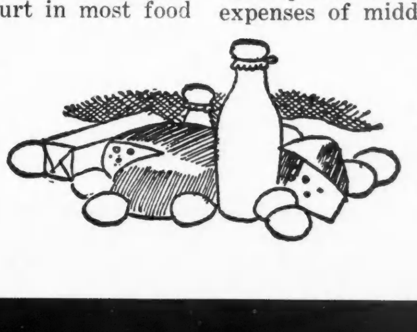
The progressively higher level of employment and disposable income thus far in the current year, together with a monthly growth in population of more than 200,000, assure high level consumption of foods regardless of seasonal or other factors that may influence price trends. In 1949, the American public spent around $52 billion for their table requirements, and while prices in the first half of 1950 were generally lower than a year earlier, a trend towards larger per capita consumption will probably hold the annual volume close to last year's. This seems especially likely now that a recent spurt in most food prices is dispelling earlier uncertainties over a possible downtrend that might set in after mid-year.

As to supply, a large carry-over of grains from last year, huge stocks of dairy and poultry products stored by the Government, plus a bright outlook for this year's crops, assures an abundance of practically all raw foods for processing. While the heaviest kind of competition forces virtually all concerns in the food industry to operate on very low profit margins, prospects of well maintained high volume encourage expectation that net earnings in 1950 will at least be comparable to those of last year. Now that firmer prices are indicated, the chances for incurring inventory losses will be minimized. Rather the reverse might happen in some instances. Last but not least, the widespread completion of postwar improvement programs should aid in maintaining better cost control as an offset to heavier operating expenses.

The export demand for American food supplies in the current year is less than a year ago and probably will continue to decline as agricultural production abroad further improves. Should any marked increase in our military activities occur in coming months, however, overseas shipments of many forms of food would rapidly expand. That an army requires an abnormal amount of sustenance is shown by daily allotment of a pound of meat to our soldiers and sailors in the last war, or more than twice the normal domestic per capita consumption.

But while dairies, canners, grain processors and producers of packaged foods alike conceivably may experience a revival of and perhaps substantial increase in, military demand, it would be very unlikely to enhance their net earnings potentials. Results in World War II showed very clearly that Government pricing and excess profits taxes held food industry profits well within bounds until the end of 1945. While as yet there is no indication that EPT will again appear on the scene, other taxes are already stiffening and seem rise to expand further in the relatively near term. Furthermore, Washington has begun to eye the current uptrend in food prices in a critical manner, and if they rise much further may take steps to stabilize them, but just how cannot be predicted. On examination, though, it will probably develop that heavier transportation costs and rising expenses of middlemen, rather than hoarding, account for the current upturn in food quotations.

In the following, we discuss in more detail prospects of the principal branches of the food industry:



DAIRIES: 1950 beyond much doubt will be the second consecu-

tive year in which earnings of the major dairy concerns will have been highly satisfactory. While the outlook is somewhat obscured because neither Borden's nor National Dairy have reported their earnings for the first quarter, operating conditions in general have been so good that little doubt exists as to favorable results achieved. As was the case in 1949, unit sales of dairy products have increased, partly due to moderate or slightly reduced prices, while costs of raw products have been substantially held down by low feed costs and an increasing herd of milk cows.

In the first quarter of the current year, total milk production was about 4% greater than the year before, reflecting both a larger number of cows and improved output per animal. Farm production of milk was at an annual rate of around 123 billion pounds in the first three months of 1950 compared with 119.1 billion pounds in all of 1949. In view of favorable grass conditions and plentiful supplies of grains and animal feeds at stable prices, it is possible that milk production this year may total at least 121.5 billion pounds. In any event the abundant milk supply should prove substantially beneficial to the dairy concerns, since consumption of fluid milk will not likely expand much, hence leaving an increased amount for numerous manufactured milk products on which profit margins normally are wider.

Rise in Butter Production

Creamery butter production averaged more than 6% higher in the first quarter than in the same period of 1949, although American cheese production fell off slightly. Supplies of evaporated milk

Pertinent Statistics on Leading Food Processors

	1949 Net Sales ($ mill.)	1949 Oper. Margin %	1st Quar. 1950 Net Sales ($ mill.)	1st Quar. 1950 Net Per Share	1949 Net Per Share	1949 Div.	Div. Yield† %	Recent Price	Investment Rating	COMMENTS
Beatrice Foods W	$190.4(a)	4.2%	$ 47.9	$ .67	$5.12(a)	$3.00	9.8%	30¾	A2	Third largest dairy concern. Volume in 1950 should at least equal 1949 and earnings remain stable. Company plans to test sale of frozen milk. A year-end extra should supplement 50 cents quarterly dividends.
Beech-Nut Packing W	69.0	10.1	15.3	.65	2.84	1.60	5.3	29¾	A2	Despite moderately lower sales in the first quarter, net earnings slightly rose. Favorable outlook and good record enhance share merits. 40 cents quarterly dividends secure.
Best Foods X	90.1(b)	8.1	20.3	1.23	3.14(b)	2.50	7.3	34	C+1	Fairly increased earnings likely, due to good operating conditions and larger sales of margarine. Stable dividends and occasional extras indicated.
Borden Co.	613.7	5.6	141.4	.....	5.10	2.70	5.5	48½	A2	Lower selling prices causing slightly reduced volume but margins widened by operating economies and larger unit sales. Strong finances may warrant payment of year-end extra to supplement quarterly payments of 60 cents.
California Packing W	174.6(a)	2.1	.....	.....	6.54(a)	2.50	6.3	39½	B1	Outlook for strong demand and firm prices very good. Earnings may recover from early 1950 decline. Company should continue 62½ quarterly dividends. Paid an extra of $1 in June.
Clinton Foods	73.1	8.2	32.0	1.22	3.67	2.40	8.0	30	B1	Dual production of corn products and frozen foods causing sharp uptrend in earnings, but capital requirements may preclude lifting of 20 cents monthly dividends in near term.
Consolidated Grocers	151.4(b)	2.4	104.4(g)	1.50(g)	2.71(b)	1.00	9.1	11	C+2	Largest grocery distributors. 1950 volume holding steady but earnings slightly lower. Conservative 25 cents quarterly dividends seem secure.
Continental Baking	154.2	6.1	35.0	.41	3.86	1.15	7.5	15¼	C+1	Heavier advertising costs and operating expenses reduced earnings in first half but recently advanced prices may bring improvement. Strong finances should stabilize 40 cents quarterly dividends.
Corn Products Refining X	145.3	13.9	37.4	1.27	4.87	3.60	5.6	64	B2	Outlook good for well maintained sales and net earnings. Large corn supply a constructive factor, as well as improved facilities. No change in 90 cents quarterly dividends probable.
Cream of Wheat	9.2	26.6	2.6	.57	2.42	2.00	7.3	27¼	C+2	Operating economies moderately increasing net earnings. Despite decline in exports, domestic demand remains substantial. Long dividend record should be maintained. 40 cents quarterly dividends secure.
General Baking	105.9	4.5	25.5	(d).08	1.52	.85	8.5	10	C+1	Drab earnings in the first quarter reflected increased operating expenses. Advanced prices should now prove beneficial. Strong finances may sustain dividends at 15 cents quarterly rate.
General Foods X	474.6	9.1	124.1	1.45	4.77	2.25	4.4	50¾	B2	Lower materials cost offsetting slight price decline in finished products. Strong trade position strengthens sales potentials. Dividends unlikely to vary from advanced 60 cents quarterly rate.
General Mills	410.3(c)	4.2	297.6(h)	.....	5.11(c)	2.25	4.1	54½	A2	Favorable cost factors sustaining satisfactory margins. Fiscal 1950 earnings should hold near 1949 level of $5.11 per share. 50 cents quarterly dividends were supplemented by 50 cents extra in July, 1950.

† Based on 1949 dividends.
(a) Year ended Feb. 28, 1950.
(b) Year ended June 30, 1949.
(c) Year ended May 31, 1949.
(d) Deficit.
(e) Year ended April 30, 1949.
(f) Year ended Feb. 25, 1950.
(g) 36 weeks ended March 4, 1950.
(h) 9 months ended Feb. 28, 1950.
(i) 6 months ended Oct. 31, 1949.
(j) 16 weeks ended April 22, 1950.

expanded about 10% and may increase further if Government purchasing is stepped up. Federal purchases of dairy products through May 5 included such substantial amounts as 33 million pounds of butter, 11 million pounds of cheese and 148 million pounds of non-fat dry milk solids. With most dairy products currently quoted close to support levels, there is not much chance of any significant shift in prices for manufactured products unless large scale military purchasing increases very rapidly. On the other hand, the mere prospect of such buying should tend to prevent much if any downtrend in quotations, lending a degree of stability to dairy operations.

Stocks of evaporated milk on March 1 were the lowest in 22 months, as much as 500 million pounds below the November 1948 peak and 105 million pounds lower than in early 1949. This makes for a healthy inventory stiuation, since consumption of evaporated milk continues on about an even level. Prices for this product are approximately 12% lower than a year before and more likely to advance moderately than to recede any further.

Oleo Competition

The elimination of excise taxes on margarine, as of July 1, involves a tax reduction of 10 cents a pound on the yellow product and 1/4 cents on the uncolored. Indubitably this will have some adverse effect on butter sales, although even the former incisively lower prices for margarine compared with butter have always created a competitive advantage which the public has been quite slow to exploit. The larger use of margarine in war years, though, established a permanently (*Please turn to page* 493)

Pertinent Statistics on Leading Food Processors

	1949 Net Sales ($ mill.)	1949 Oper. Margin %	1st Quar. 1950 Net Sales ($ mill.)	1st Quar. 1950 Net Per Share	1949 Net Per Share	1949 Div.	Div. Yield† %	Recent Price	Invest-ment Rating	
Heinz, H. J.	$174.8(e)	6.2%	$ 88.4(i)	$1.93	$4.33(e)	$1.80	5.2%	34¼	A2	Earnings in fiscal year ended April 1 were probably around $4 per share compared with $4.33 the year before. Ample coverage of dividends indicated in current year at conservative rate of $.90 annually.
Hunt Foods	42.8	....	7.8	......	(d)4.13	.50	4.0	12⅝	C2	Operations may prove moderately profitable in current year after resulting in losses last year. Little chance, though, that common dividends will soon be resumed.
Libby, McNeill & Libby	145.3(f)	4.2	......	......	.91(f)	.50	6.6	7½	C+2	A strong trade position assures rather stable sales, and earnings in the current year should compare favorably with the preceding period, ended February 25. Semi-annual dividends of 25 cents a share seem dependable.
National Biscuit W	294.4	12.4	72.6	.72	3.17	2.00	6.0	34	A2	Well sustained heavy demand and favorable cost factors should sustain 1950 earnings close to the $3.17 per share for 1949. No variation in the 50 cents quarterly dividend appears likely.
National Dairy Products W	897.6	6.5	213.5	......	5.26	2.20	5.3	41¼	A2	Company continues to benefit from postwar improvements and ample supplies of materials. 1950 earnings should equal the 1949 rate of $5.27 per share, and dividends of 60 cents quarterly should continue.
Penick & Ford	36.7	10.8	10.1	.74	3.40	2.60	7.4	35	B2	Increased sales in the forepart of 1950 improved margins and net earnings. Demand outlook good for company's corn products. 40 cents quarterly dividends may be liberalized at year-end.
Pet Milk	142.1	4.4	32.7	.08	6.34	1.50	4.9	30⅝	B2	First quarter earnings adversely affected by inventory markdowns, but 1950 net should seem relatively satisfactory. 25 cents quarterly dividends indicated with chance for year-end extra.
Pillsbury Mills	200.4(c)	1.7	47.8	......	3.51(c)	2.00	6.4	31	B2	Well secured trade position holding sales fairly level. Favorable cost-price ratios should stabilize 1950 earnings and assure payment of 50 cents quarterly dividends.
Purity Bakeries	67.2	7.0	22.5	1.24(j)	3.63	2.40	8.4	28½	B1	An uptrend in earnings this year reflects improved demand and operating economies in some plants. Strong finances protect dividends at 60 cents quarterly rate.
Standard Brands	262.9	4.1	65.9	.61	2.34	1.45	7.0	21	C+1	First quarter sales moderately higher and earnings were 20% up. Full year outlook encouraging and dividends should at least match the 1949 total of $1.45 per share.
Stokely-Van Camp	95.0(c)	6.1	67.8(h)	......	2.34(c)	1.00	9.0	11¼	C+2	Good outlook for both canning and frozen foods divisions encourages expectations of stable earnings. No change in the 25 cents quarterly dividend rate probable.
Sunshine Biscuits W	100.9	12.2	23.7	1.61	7.67	3.75	7.0	53¼	B2	With improved cost controls and fairly well sustained dollar sales, 1950 earnings should compare well with last year's $7.67 per share. $1 quarterly dividends are amply secured.
United Biscuit X	84.7	10.5	21.9	1.08	5.35	1.60	5.6	28	B2	Lower earnings in first quarter, due to increased costs, but full year net should easily cover quarterly dividends of 40 cents a share.
Ward Baking	80.2	6.1	18.1	.42	3.85	2.00	13.1	15¼	C+1	Operations in first quarter less profitable but firmer prices may reverse the downtrend later. 25 cents quarterly dividend probably safe.

† Based on 1949 dividends.
(a) Year ended Feb. 28, 1950.
(b) Year ended June 30, 1949.
(c) Year ended May 31, 1949.
(d) Deficit.
(e) Year ended April 30, 1949.
(f) Year ended Feb. 25, 1950.
(g) 36 weeks ended March 4, 1950.
(h) 9 months ended Feb. 28, 1950.
(i) 6 months ended Oct. 31, 1949.
(j) 16 weeks ended April 22, 1950.

Will Sugars Stay Sweet Market-Wise?

By STANLEY DEVLIN

Nothing seems to stimulate demand for sugar more than war—or even "police action" that threatens to lead to armed conflict. Fortunately for consumers as well as for producers, the latest war scare finds the world plentifully supplied with this highly desirable commodity. Sugar production in the West Indies in the season just ending has been more than adequate for normal use and harvest prospects are promising in beet growing areas. Hence, although the recent clamor for supplies may represent primarily an effort to build up inventories, it seems reasonable to think that increased tension may encourage maintenance of larger than usual stocks in the hands of consumers. The development affords a favorable prospect for sugar producers.

Despite buying sprees in grocery stores that repeatedly have depleted retail supplies, there is little likelihood of actual shortages accompanied by sharp price advances. Government agencies have taken steps to permit the law of supply and demand to operate on a limited scale. As result of action by the Department of Agriculture, the import quota for 1950 recently was enlarged by 350,000 tons, making the total for the year 7,850,000 tons. As a guess, it would seem reasonable to expect further relaxation in controls if this measure fails to check hoarding. All indications suggest that supplies can be obtained to fill a still greater quota if the Secretary of Agriculture decides another boost would prove useful in holding prices in check.

An indication of the effect on consumer demand occasioned by the war scare is afforded by Government statistics on movement of supplies into trade channels. Soon after the White House decision to dispatch American forces to Korea, shipments by primary distributors rose sharply. Late in June and early in July, deliveries were running in excess of 250,000 tons raw value weekly compared with slightly more than 150,000 tons a week in corresponding periods a year ago.

Partly as a result of the spurt late in June, sugar deliveries charged against Government quotas rose to 3,944,345 short tons for the six months ended with June—or approximately half the revised 1950 quota of 7,850,000 tons. In the corresponding period last year 3,852,226 tons were charged to the 1949 quota.

Although world supplies are regarded as more than adequate to meet any reasonable need, inventories of refined sugar are limited. Hence supplies in retail channels are likely to remain short for some weeks to come unless consumers can be persuaded to refrain from hoarding. Refiners have raised prices moderately in opening order books for the next few months, but quotations still remain below O.P.A. ceilings that prevailed around the close of the war. The prices established by Government regulation were $8.40 a hundred pounds for refined sugar and $6.32 for raws. Washington authorities have indicated their desire to prevent prices from rising above these levels on the present wave of accumulation.

Cubans Get Bulk of Quota Increase

The bulk of the higher quota approved in Washington will be allotted to Cuban producers, it has been announced. All but about 5,000 tons may be supplied by the Island Republic in raising the Cuban quota to about 2.8 million tons for the year. Inasmuch as production appears to have approximated 5.5 million tons, the supply available for world markets and for a reserve to be made available later, if it should be necessary, seems likely to be abundant

for the next year. No shortage is indicated.

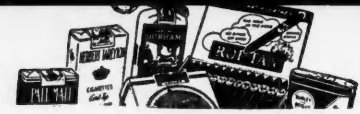
The rush for sugar in national emergencies, although readily understandable, is a curious economic phenomenon. As a source of sustenance the commodity is relatively unimportant; in fact, sugar plays a minor role in terms of economic significance. It is estimated that it accounts for no more than 3 per cent of the wholesale value of all foods. Yet it is so essential in making many foods and beverages palatable that it has come to be recognized as one of the most strategic foods for mankind. As a matter of fact, its primary importance explains the adoption of the quota system in this country designed to encourage ample supplies in times of emergency.

Food manufacturing industries in this country used more than 3 million tons of sugar, raw value, or about 41 per cent of the aggregate 1949 consumption, according to a recent survey by the Department of Agriculture. Soft drink bottlers and other beverage distributors represented the largest single outlet for refined sugar. About 10 per cent of domestic requirements went into (*Please turn to page* 491)

Statistical Summary of Sugar Companies

	Fiscal Years ended	1948* Net Sales ($ mill.)	Net Per Share	1949* Net Sales ($ mill.)	Net Per Share	1949 Div.	Div. Yield† %	Recent Price	Price Range 1949-50	Investment Rating	COMMENTS
Cuban Dominican Producers											
Central Violeta Sugar	9/30	$ 8.6	$ 3.81	$ 9.6	$ 3.63	$2.00	10.0%	20	21⅝- 9⅛	C+1	Earnings outlook improved for current year despite indicated moderate decline in crop yield and prospect of usual $1.50 year-end dividend is promising.
Cuban Amer. Sugar	9/30	66.4	4.27	68.1	3.02	2.25	12.0	18¾	20¼-12¼	C+1	Sales now expected to compare favorably with last year and earnings again may approximate $3 a share, encouraging hope of liberal year-end extra dividend.
Cuban Atlantic Sugar	9/30	94.0	8.35	76.5	3.55	2.25	9.1	24½	25⅜-14⅝	C+1	Favorable production results and recent rise in world demand point to better-than-average gain for 1950 earnings and improves outlook for moderate extra.
Francisco Sugar	6/30	16.8	5.76	12.1	1.43	.50	3.5	14¼	15½- 8⅝	C1	Satisfactory earnings for year ended in June indicated although boom came too late to help 1950 results much. Maintenance of conservative dividend indicated.
Guantanamo Sugar	9/30	6.5	2.27	6.2	1.40	1.00	9.8	10¼	11⅜- 5	C1	Earnings in fiscal year ending in September expected to compare favorably with last year, encouraging prospect of $1 dividend again next year for good yield.
Manati Sugar	6/30	13.3	3.56	12.8	1.93	.80	8.3	9⅝	11 - 6½	C1	Sales and earnings for year just ended estimated to have compared favorably with last year's results and conservative year-end dividend is anticipated.
Vertientes-Camaguey	9/30	28.8	4.25	22.3	2.08	2.00	13.1	15½	17⅝-10	C1	Benefit of recent increase in sales may offset adverse effect of reduced output and lower molasses prices, but dividend coverage appears rather thin.
West Indies Sugar	9/30	43.9	8.20	36.9	3.59	2.00	8.3	24	25½-16⅝	C+1	Stronger demand for sugar improves earnings outlook for year soon ending indicating ample coverage for regular $1.50 dividend as well as good extra.
Puerto Rican Producers											
Central Aguierre Sugar	7/31	11.7	1.07	14.0	1.84	1.50	8:5	17½	19¾-14¾	B—2	Record crop just completed assures satisfactory earnings and ample margin for $1.50 dividend despite still unsatisfactory world market conditions.
Fajado Sugar	7/31	13.1	3.83	13.9	2.76	4.50	18.3	24½	26 -19⅞	C2	Results in year just ended estimated to have approximated $3 a share, thus assuring liberal dividend. Ample funds encourage prospect for extra payments.
South Porto Rico Sugar	9/30	30.8	6.98	32.8	7.02	6.31(a)	14.5	43½	45¼-26⅝	B2	Earnings in year ending September may fall below 1949 showing despite recent boom in sales, but ample coverage indicated for regular $4 annual dividend.
Beet Sugar Producers											
Amer. Crystal Sugar	3/31	32.1	2.96	28.4	3.23	1.20	6.0	20	20⅞-14	C1	Stronger statistical position favors earnings outlook, but operating costs likely to remain high. Net may compare favorably with $3.23 in year just ended.
Great Western Sugar	2/28	50.5	2.18	46.3	1.66	1.50	7.8	19¼	22 -16½	C+1	Though harvest forecasts are difficult, outlook appears promising for recovery in earnings this year sufficient to assure maintenance of 30c quarterly rate.
Holly Sugar	3/31	43.9	2.66	40.4	3.00	1.00	5.5	18	22½-16¼	C1	Prospect for satisfactory margins in coming season expected to permit favorable comparison with $3 a share last year and assure $1 regular rate.
Refiners											
American Sugar Ref.	12/31	245.1	10.07	277.1	10.75	4.00	8.1	49⅛	52 -31¾	B—1	Strong consumer demand expected to aid profit margin despite threat of higher wage demands. Adoption of quarterly dividend policy adds to investment appeal.
National Sugar Ref.	12/31	111.7	3.33	134.5	4.40	2.00	7.5	26⅝	28⅞-21¼	C+1	Only threat of labor unrest tends to cloud outlook for earnings, but net profit expected to afford satisfactory coverage for regular $2 annual rate.

† Based on 1949 dividend.
* 1947-1948, 1948-1949, 1949-50 fiscal years, respectively.
(a) Includes second and final distribution in complete liquidation of Russell & Co.



Another Look At
The TOBACCOS

By H. S. COFFIN

★ ★ ★

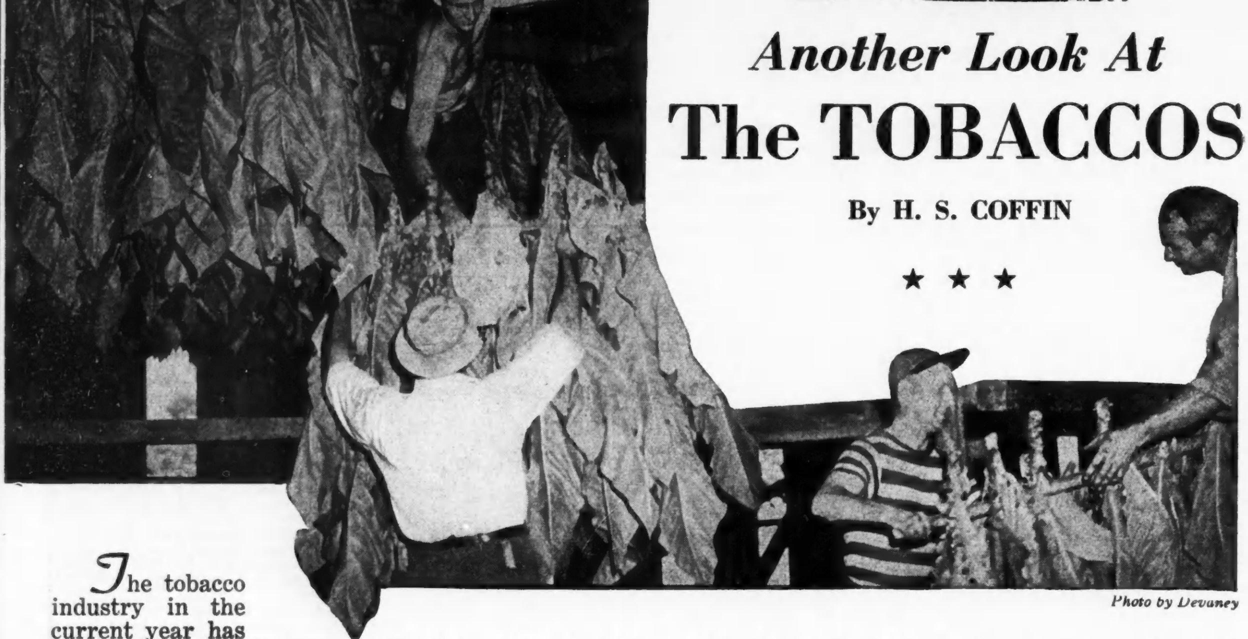


Photo by Devaney

The tobacco industry in the current year has continued to benefit from substantial and gradually increasing demand, in line with the uptrend in population and national income. In 1949, consumers spent more than $4.2 billion for tobacco products—the highest amount on record—or almost 2½ times the average annual expenditure in prosperous prewar years. Evidence presently points to a new peak in 1950, but not all companies in the industry will share alike in the prospective volume gain.

In the 12 months period ended June 30, 1950, according to the Department of Agriculture, total manufacture of cigarettes approximated 385 billion compared with 390 billion in the same 1949 interval. A decrease in exports, however, rather than any diminution in domestic demand accounted for the reduced decline in number. Domestic consumption (as shown by tax-paid removals) probably came close to 355 billion, or 3 billion higher than a year earlier. During the last half of 1949, U. S. consumption of cigarettes tended to level off, but during the first quarter of 1950 it ran about 3% higher than the former record level established in early 1949. This uptrend is expected to continue through 1950.

From July 1949 to March 1950, cigarette exports were lower by 28% from the comparable span a year earlier. Largely accountable for this poor showing was a very sharp drop in exports to the Philippines, occasioned by their Government restrictions on imports to conserve dollar exchange. Additionally, the Philippinos are striving to rehabilitate their own tobacco industry and to promote the smoking of cigars as in prewar. It is encouraging to note, however, that in the first quarter of 1950, exports of American cigarettes to French Africa and Hong Kong, as well as to numerous other foreign countries, rose quite substantially.

Sales of the prominent cigarette manufacturers developed mixed trends last year and it is probable that due to the highly competitive character of this business, the same will hold true in 1950. Success in the promotion of brand names in the field is such a weighty factor in determining company sales that an endless battle to win consumer popularity is always under way. While there may be a frequent shift in leadership among the principal brands, the over-all business of the leading firms remains relatively stable, and dependable earnings and dividends are the rule.

In 1949, for example, American Tobacco Company, the dominant unit in the group, experienced a moderate decline in dollar sales, whereas volume of B. F. Reynolds and Liggett & Myers advanced somewhat. A few of the more moderate sized companies, such as Benson & Hedges, also enjoyed quite a sharp upturn in volume. In the long-standing fight for supremacy among cigarettes, R. J. Reynolds' "Camels" spurted ahead to gain first place in 1949, while sales of American Tobacco's former champion "Lucky Strikes" lost ground slightly. American Tobacco's lesser known brands, Herbert Tareyton and Pall Mall, on the other hand scored gains of more than 20% last year. Philip Morris & Company, Ltd. has continued to forge ahead impressively ever since a setback several years ago, and its cigarettes now hold fourth place in the industry. The "Chesterfield" brand of Liggett & Myers holds its own in accounting for about one fifth of total industry sales of cigarettes. Unit sales of "Old Golds" in 1949 (P. Lorillard) showed a gain of almost 10%.

Good Prospects for Cigarette Companies

In general, the cigarette division of the tobacco industry should prosper throughout 1950, although net earnings of most companies may not quite match last year's excellent showing. While the current year's tobacco crop may be lower than in 1949, due to reduced acreage allowables, supplies of burley and flue-cured tobaccos should be ample to meet all demands. Furthermore, all of the leading cigarette manufacturers have been accumulating tobacco on a record scale in recent years, plenty of which is now

well aged and available for any anticipated requirements. A slight decline in tobacco prices last year tended to lower average costs moderately, although quotations of late have been somewhat above the price support level.

There is not much chance that cigarette prices will vary in the current year, as the moderate boost put into effect late in 1948 has enabled the large manufacturers to operate with satisfactory margins. Wage costs in the industry are among the lowest, as all operations are thoroughly mechanized. The main factor likely to bring a slight decline in net earnings is promotional expenses. Large outlays for advertising, including expensive television programs, narrowed margins of all but one of the leading firms in the first quarter of 1950, reducing net earnings moderately compared with a year earlier. In consequence, similar results may be expected for the full year, with net earnings generally down somewhat from 1949. Dividend coverage, though, should be ample to sustain disbursements on a stable basis.

One element of uncertainty until recently was whether or not Congress will lower excise taxes on some tobacco products, as approved by the House Ways and Means Committee, which would have permitted a sharp cut in excise taxes on cheaper cigarettes with no change in those on the major and more expensive brands. Any such step would naturally would have an unfavorable effect on sales of the leading brand names. Due to the Korean crisis, the tax bill is now likely to be abandoned upon the President's request, thus this particular threat appears at least temporarily removed.

Despite the high level of national income, the popularity of cigars has shown little gain. Domestic consumption of cigars, though, may be nearly as large as the 5.6 billion reported in 1949. First quarter unit sales this year were about 1% less than the year before and about 4% below the first quarter of 1948. Consumption of cigars selling for 8 cents or less, however, was up 8% over that of January-March 1949. In contrast, consumption of cigars selling for more than 8 cents declined about 9%, but this marked a moderate recovery from a 16% decline in the last half of 1949.

Among cigar manufacturers, Consolidated Cigar Corporation, the dominant company in the medium price field, seems to be pushing ahead at the expense of its two competitors, Bayuk Cigar and General Cigar. In postwar, earnings of Consolidated Cigar rose consistently to a peak of $7.34 per share in 1948, declining slightly to $6.77 in 1949. In the first quarter of 1950, per share earnings of $1.23 compared with $1.19 the year before.

Earnings Downtrend

Both Bayuk and General Cigar have experienced a downtrend in earnings for several years past, and got off to a poor start in the first quarter of 1950 by reporting in each case a nominal profit of only 1 cent per share. Through the first half of the current year, though, quarterly dividends of 20 cents a share were paid by Bayuk and 25 cents by General Cigar, the latter concern thereby maintaining an unbroken dividend record since 1909. It is evident that conditions in the cigar industry have become so competitive that unusually efficient management and effective promotion are *(Please turn to page 487)*

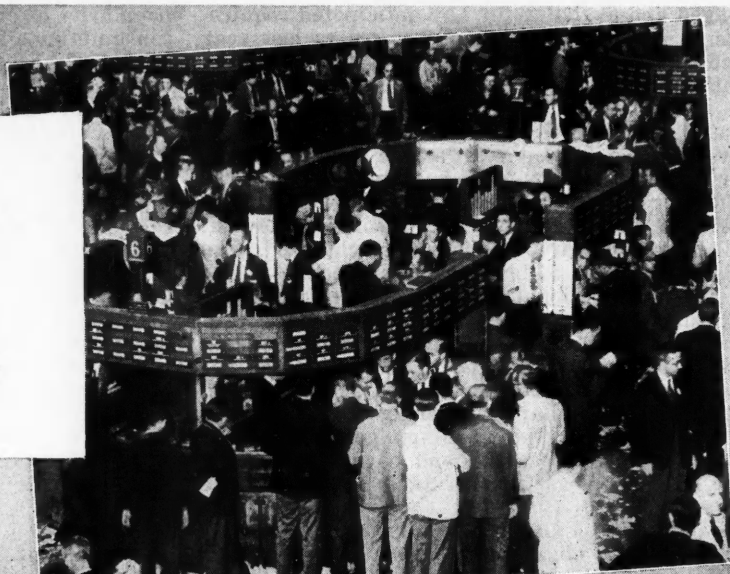
Position of Leading Tobacco Companies

	1949 Net Sales ($ mill.)	1949 Oper. Margin	1st Quar 1950 Net Sales ($ mill.)	1st Quar 1950 Net Per Share	1949 Net Per Share	1950 Estimated Net Per Share	1949 Div.	Div. Yield† %	Recent Price	Investment Rating	COMMENTS
American Snuff	$ 13.3	20.6%	$ 3.3	$ .87	$3.40	$3.25	$2.75	6.7%	40¾	B2	Second largest producer of snuff and operating with ample margins. Distributes a liberal share of earnings. 60 cents quarterly dividends should continue, plus extra.
American Tobacco W	858.9	9.6	196.4	1.43	7.90	7.60	4.00	6.1	65	A2	No marked change in volume and earnings probable, due to strong trade entrenchment and diverse output. Increased sales of king-size cigarettes likely. No change in dividends indicated.
Bayuk Cigars	31.1	4.2	6.3	.01	.93	.80	.97	10.0	9⅝	C+3	A better grade cigar stock, but serious competition currently is adversely affecting earnings and may create a threat to dividend stability.
Consolidated Cigar	47.2	8.3	12.0	1.23	6.77	6.25	1.66	6.0	27	C+3	The largest company in respect to dollar cigar volume and notably successful as to earnings capacity. Net income in 1950 should amply exceed 50 cents quarterly dividends.
General Cigar	33.5	5.2	6.1	.01	1.43	1.00	1.00	6.9	14½	C+3	Maker of popular White Owl cigars, but sales tending to reduce as competitors cut prices on their brands. Earnings may decline in 1950 and stability of 25 cents quarterly dividend questionable.
Helme, G. W. W	9.6	25.5	2.6	.64	2.30	2.15	2.20	8.3	26½	A2	Third largest producer of snuff and very strongly financed. Prospective earnings of around $2.15 a share in 1950 should create dividend stability at 40 cents quarterly rate.
Liggett & Myers	557.7	9.6	123.2	1.50	7.19	6.70	5.00	6.1	81	A3	Reduced foreign shipments likely to affect volume, but fairly stable earnings expected. Sales of Fatima cigarettes should expand and Chesterfield volume hold steady. $1 dollar quarterly dividends, plus a year-end extra indicated.
Lorillard	153.5	7.8	37.0	.59	2.73	2.70	1.75	7.2	24	B2	1950 sales of Old Golds should increase, but larger expenses may restrict earnings gain. Some near term financing probable. 1950 dividends should equal $2 per share.
Philip Morris W	228.3(a)	9.7	75.8(b)	1.85(b)	7.26(a)	7.35	2.87	5.5	51⅝	B2	Company making dynamic progress in the current year. April dividend increased to 75 cents a share, supplemented by a 75 cents extra. Outlook favorable.
Reynolds Tobacco "B"	746.3	9.8	169.8	.74	3.75	3.65	2.00	5.5	36⅜	A2	Higher expenses may reduce earnings slightly in 1950, but dividends at a $2 per share annual rate should easily continue.
U. S. Tobacco W	21.7	20.4	5.6	.36	1.52	1.45	1.35	6.8	19⅝	B2	Largest maker of snuff, enjoying an enviable dividend record. Outlook is good for a prosperous year. 30 cents quarterly dividends are secure and a year-end extra likely.

† Based on 1949 dividends.
(a) Fiscal year ends March 31, and prior to recent increase in capitalization.
(b) For Quarter ended June 30, 1950.

FOR

PROFIT AND INCOME



August

On the basis of mere historical record, August shapes up as one of the better months for the stock market. For this month as a whole, the Dow-Jones industrial average has had a material net advance in 15 out of the last 40 years, a material decline in 6 years, and experienced only insignificant net change in 19 years. Some of the sharper August declines were those of 1946 and 1937. Some of the best advances were those of 1945, 1933, 1932 and 1928. The most spectacular August performance was that of 1932, with a net rise of about 35%; but it was, of course, from an extremely low level. (54.26 to 73.16). There has been no decline of real nose-dive proportions in August; and, with the exception of 1932, the percentage advances have been moderate. In such bull-market years as 1944 and 1943, the net change was slight. That was so also in 1929, with August providing just about the last gasp of the greatest of all bull markets, the exact top of which was seen a few days later on September 3. In 1914 August was the first full month during which the Stock Exchange was closed on account of the outbreak of World War I. And now, 36 years later, with World War II only some 5 years behind us, people are nervous over the possibility of World War III. In this situation, the historical market record cannot mean much. If war fears subside, there could be a good rebound from the technical springboard provided by sharp July decline. The impact of "first page" news on investment psychology will largely tell the story, and tend to blanket routine financial-business news.

Selectivity

Stocks which had had large advances, or which would be out of favor in a war economy, have been under special selling pressure recently. Examples to which one of these considerations, or both, apply include television and all appliance stocks, auto accessories, building and chemicals. Groups holding up relatively well up to this writing include aircraft, coppers, oils, rails, some rail equipments, sugar stocks, liquor stocks, and steels. This list includes the most logical war-baby choice for World War III (aircrafts); some logical peace-or-war straddles like oils and coppers; and, otherwise, some groups which performed relatively well under war conditions of recent memory.

In The Dark

There is, of course, no certainty that recent patterns of selectivity in investment thinking will continue. They involve some hasty jumping-to-conclusions in a jittery market. Will there be a World War III? If not, much of the selective emphasis of recent weeks will prove wrong. If so, what kind of war will it be? Will we try for a decision by atom bombs or slug it out in land fighting or do some of both? The answers, plus the highly uncertain matter of duration of hostilities, determine war-production needs, the severity of restrictions on civilian production, etc. Assuming we have an excess-profits tax, how much will the exemptions and effective rate differ from those under EPT in World War

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1950	1949
General Tire & Rubber	6 months May 31	$2.44	$ .41
Granite City Steel	5 months May 31	5.97	3.54
International Shoe	6 months May 31	1.34	1.31
Southern Pacific Trans. System	5 months May 31	3.38	1.63
Avco Mfg. Corp.	6 months May 31	.67	.35
Barker Bros.	June 30 Quarter	.49	.40
Mead Corp.	12 weeks June 11	1.70	.41
Mathieson Chemical	June 30 Quarter	1.63	1.53
Monsanto Chemical	6 months June 30	2.85	1.72
National Tea Co.	24 weeks June 17	2.76	2.52

II? This can make a significant difference in calculating earnings and projecting possible dividends. All of this suggests that the switching, responsible for divergent stock-group trends now, is being done largely in the dark.

Hedge

In any event, the market preference for good oil stocks appears well-founded. This is an essential, financially strong industry. It is a long-term growth industry. It has a sheltered tax position (special depletion allowance) and is to some extent politically favored. Probable war-time earnings and dividends, figured as a percentage of present earnings and dividends, would be among the best, so far as the major industries are concerned. To the many good oils cited in this column heretofore, we would add Standard Oil (Indiana). It is the biggest refiner and marketer in the Middle West. Integration is steadily improving as a result of emphasis on development of crude oil production and reserves in recent years. Finances are impregnable. Earnings this year should be reasonably near 1948's record $9.16 a share, and much over 1949's $6.72. At least the conservative $2 dividend will continue. The highest effective tax rate shown in any year during World War II was about 37%, against roughly 23% last year. Assuming the same EPT basis, the effective rate now would be lower, due to enlarged crude oil output and resulting larger depletion allowance. Hence, the major portion of present earnings no doubt would be retained.

Another

Stocks of low-cost copper producers are also among the most logical choices in any list of "peace-or-war" equities. One of the best of these is Phelps Dodge. The company probably would gain more from the advanced level of copper prices—assuming no "roll-back" under price-control legislation — than it would lose from an excess-profits tax. Its highest wartime effective tax rate was roughly 60%, against about 33% in 1949 and 1948. Copper prices, and dollar sales, are much above wartime levels. On present indications, 1950 earnings will be nearer 1948's record of $10.30 a share than last year's $6.85. Finances are strong. The present $4 annual dividend rate, providing a yield of about 8% at current market price, appears readily supportable under almost any condition excepting an industrial slump of serious proportions —and that is not on the cards as far ahead as we can see. There is no funded debt or preferred stock outstanding. The sole capitalization is 5,071,260 capital shares. Assets are close to $275 million. Book value is about $45 a share. The stock has been meeting with good demand only modestly under its 1950 high.

Growth Stocks

It is obvious that at some point ahead some of the premier "growth stocks" are going to be outstandingly attractive for purchase; but, as to when that will be, your guess is about as good as any this column can make. That is so because it depends on whether we get an excess profits tax; and, if so, how stiff it might be—both of these uncertainties depending on war developments. Well established growth companies generally enjoy a high rate of return on invested capital as well as a dynamic profit trend. Hence, they are heavily penalized under an excess-profits tax, whether their exemption is figured on average base-period earnings or on the basis of investment return. To cite a more or less typical example, combined income and excess-profits taxes of Corning Glass Works, exceeded 70% of pretax net income in a number of the war years, compared with a comparable figure of less than 40% last year. For obvious reasons, this and other previous high-flying growth stocks—such as Dow Chemical, Minnesota Mining & Manufacturing, Merck, Pfizer, etc.,—are out of favor at the moment. If you ask whether they are in a buying zone now or are in danger of going considerably lower, that is the same as asking whether or not we are going to go from the "little war" in Korea to a big war, a controlled economy and an excess profits tax. This column thinks the latter is unlikely—but who can guarantee it?

Retail Stocks

Department-store stocks were spectacular performers in the postwar phase of the 1942-1946 bull market, in anticipation of major benefits from the elimination of EPT. Thus, as a typical example, in 1945 Federated Department Stores topped its 1944 high by about 85%; and in 1946 bettered its 1945 high by some 44%, both far exceeding the comparable performance of the Dow-Jones industrial average. The effective tax rate in 1945 was about 76%; and was not far from halved, boosting net sharply, by the removal of EPT. It follows that many retail stocks would be hard hit by an excess profits tax severe enough to be an important revenue producer for the Government. To go back to Federated, it earned $5.45 a share last year and paid $2.50 in dividends, under the 38% corporate tax rate. Under the full impact of World War II's EPT, this would have been cut to a net of roughly $2.70, with dividends probably not exceeding $1.35 at the most, as judged by past ratios of dividends to earnings.

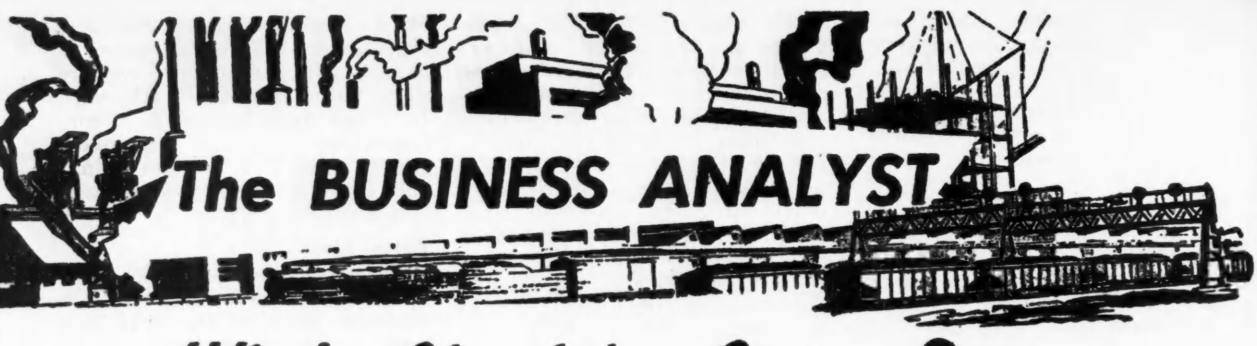
Snuff

On the other hand, the snuff stocks would have little or no "excess profits" under an average-earnings option at all similar to that applicable in the last war —but would be hit by any boost in the normal tax rate. These companies for years have dis-

(*Please turn to page* 492)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

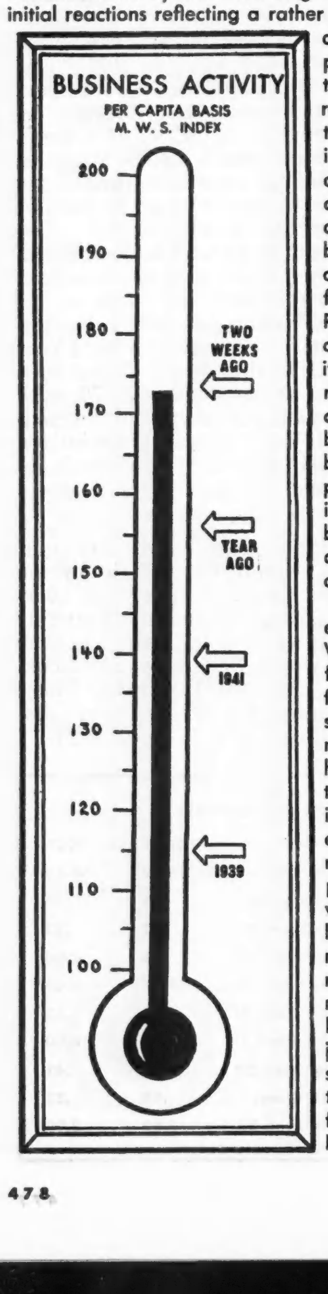
		1950	1949
Crown Zellerbach Corp.	Year April 30	$6.12	$6.85
Eversharp, Inc.	May 31 Quarter	.33	.36
Underwood Corp.	June 30 Quarter	.72	.82
Eagle-Picher Co.	6 months May 31	.85	2.06
New York Air Brake	6 months June 30	1.97	3.99
Consolidated Laundries	12 weeks June 17	.47	.63
Kroger Co.	24 weeks June 17	3.52	4.00
Bayuk Cigars	6 months June 30	.25	.41
South American Gold & Plat.	March 31 Quar.	.18	.23
Woodward Iron Co.	6 months June 30	3.60	3.90



What's Ahead for Business?

By E. K. A.

The general run of business news has been pretty much overshadowed by the disturbing developments in Korea with initial reactions reflecting a rather pessimistic appraisal of the outlook. Whether these impulses, often highly emotional, will prove correct, remains to be seen. But while there may be danger in indulging in hasty business decisions until the situation clarifies, one way or the other, it is also obvious that business planning, based on assumptions previously justified, must now be revised. Regardless of the outcome of the fighting in Korea, and it may be prolonged, accelerated defense spending is certain and its impact on the boom we already enjoy will bring added inflationary pressures, aggravate current industrial shortages and bring nearer the possibility of controls and curbs on civilian output.



No such steps are presently contemplated, but Washington could move fast, if necessary. If the fighting is prolonged, pressure for controls will mount rapidly. Knowing this, there has been a rush of anticipatory or precautionary buying by industry, distributors, even by individuals with the result that the commodity price level is now back within 5% of its all-time high established in the summer of 1948. It won't take much to get it across that mark if the current trend holds up, and the urge to jump on the bandwagon is strong. Business recognizes the need for more ample forward coverage since the boom, despite recent inventory replenishment, has left stocks rather too low to meet simultaneously record peacetime military and consumer requirements.

Meanwhile the business upswing has made new highs during June as generally anticipated. Industrial production in terms of the FRB index climbed to 197% of the 1935-39 average, 2% higher than the 1948 postwar peak and comparing with 193% in May and 169% in June, 1949, when last year's inventory recession neared its bottom. What with the new impetus imparted by the war, there is nothing to prevent further new highs during the balance of this year after the seasonal summer lull, and even the latter may be less apparent than otherwise would be the case.

What to Expect

Injection of the war factor, barring all-out war, justifies anticipation of firm prices for most finished goods and somewhat higher living costs, though no serious inflation as long as the Korean situation remains localized; higher industrial profits in 1950 than in 1949 since a tax boost is not contemplated until next year; further gains in plant expansion; a far smaller seasonal let-down in demand for autos and housing than otherwise might have occurred late in Fall; a rising public demand for soft goods of all kinds and continuation of good business in most hard goods lines unless consumer credit is drastically curbed; virtually maximum employment and continued high personal incomes; and finally, fewer strikes.

All this presupposes no early controls or restrictions, something that cannot be taken entirely for granted. Already there is talk of steel priorities which would be bound to hurt auto and appliance output. Steel is not only terrifically tight but continued capacity production is threatened by shortages of ore and coal which at a later date may require an at least temporary lowering of the output rate. If so, the tightness would be enhanced—and some sort of action would become imperative.

Uncertainties In The Outlook

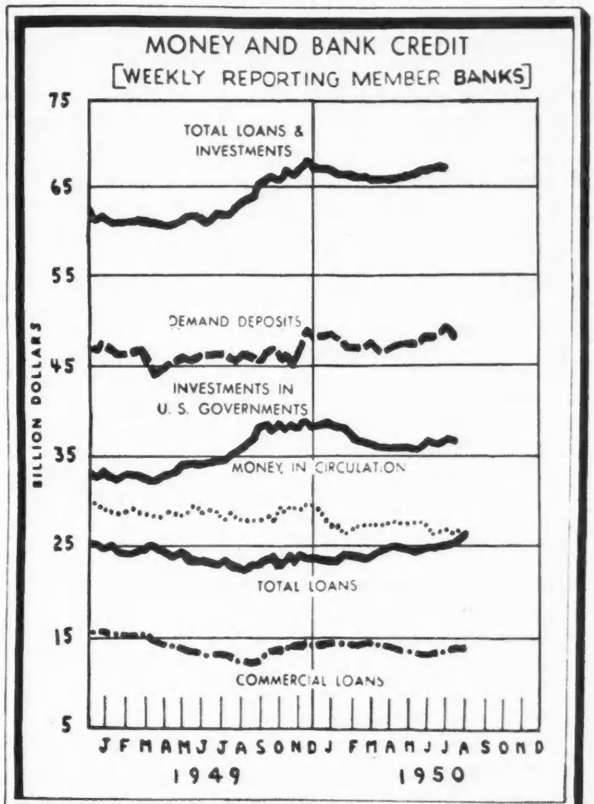
However, it is futile at this stage to attempt to look too far ahead since everything depends not only on the trend of the Korean war and its demands on the home economy, but importantly also on official decisions regarding the degree of rearmament acceleration regardless of what happens in Korea. In other words, on the extent of mobilization of American power whether immediately needed or not. Presumably, domestic political considerations, aside from the exigencies of international policy, will play a part in such decisions as long as these are not absolutely forced by the latter. Barring a worsening of the international situation, our guess would be that we shall drift rather than be suddenly projected into a progressive preparedness economy.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—A reactionary trend in common stocks continued during the fortnight ended July 14; but the market was less panicky and more selective than in the initial war-scare week ended June 30. Most of the selling was in issues representing industries that would suffer most from priorities and other Government controls; whereas groups generally classed as "war stocks" either gave ground grudgingly or actually advanced a little against the trend. Twenty-five of our 46 group indexes made new lows for the current year; soft drink stocks sank to the lowest average price since 1943 and the gold mining group extended its decline to the lowest level since 1942, but sugar stocks soared from a new 1950 low, established on June 30, to the highest average price since 1946. The decline has been cushioned to some extent by mutual fund purchases, and through trust fund buying of better grade utility common stocks under New York State's "prudent man" law, which became effective on July 1. New York Bank stocks ended the fortnight at the lowest average since last November 26, high grade corporate preferred stocks lowest since February 4, and high grade rail bonds lowest since July 16, 1949. In refreshing contrast was a fractional rise in the bank eligible Victory 2½s, while even the restricted series showed only a minor decline. On the other hand, an unusually sharp drop in foreign government dollar bonds to the lowest average level since April 9, 1949, was scarcely surprising. Hardest hit were external bonds issued by countries situated uncomfortably close to the Russian orbit. The Serbian 7s of '62, for instance, slumped 27%; the Greek 6s of '68, 16%; and the Denmark 4½s of '62, 14%. Losses by Australian and Latin American bonds were much smaller, while the Canada 4s of '55 closed only a quarter point lower. It is somewhat reassuring to gather from this brief survey that sober investors on this side of the Atlantic are not losing much sleep over the possibility of an A bomb attack upon North America in the near future. Stocks on the Paris Bourse have staged an average decline of 9.5% during the first three weeks of the Korean crisis (June 23 to July 13), against a drop of 10.4% in our own index of 325 active common stocks. In the Paris black market, bar gold has risen 14%, and the American dollar 3%, during the three-week interval. In the black market at Rio de Janeiro, the dollar dropped 12% overnight on recollections of what happened during World Wars I and II when Brazil earned more dollars than she could spend. During the six months ended March 31, Brazil had an unprecedentedly favorable export surplus of over $210 million. Until decisions on new financial policies crystalize in Washington, monetary operations by the Treasury and commercial banks will continue along the present booming peacetime path. Thus, for the opening fortnight of the new fiscal year, the Government has reported a budget deficit of only $350 million, against $861 million for the corresponding interval last year. Receipts were off $54 million but expenditures were slashed $565 million. The treasury reports a drop of $802 in its cash balance during the fortnight, after retiring around $200 million of the Government debt. Member bank reserve balances rose $460 million, largely because the Treasury withdrew about $483 million from its deposits with Federal Reserve Banks.

TRADE—Department store sales in the fortnight ended July 8 averaged about 8.5% above the corresponding period last year, thereby lowering to 1% the cumulative decline for the year to date. U. S. imports this year are expected to exceed $7.5 billion, a new high record. In the first five months they have already topped the corresponding period of last year by 10%. Our excess of exports had dwindled by May to only $241 million. It could vanish altogether under war-induced stepped-up imports for stockpiling and mercantile inventory building. The trend will be accentuated by the recent tightening of curbs on our exports of petroleum products and a probable rescinding by Congress of the two-cents import duty on copper. Our expanding imports at rising prices have already helped to relieve dollar shortages abroad. The sterling area's reserves of gold and dollars had recovered to $2,422 million by the end of June—up $438 million in the past three months, and $1,082 million since the pound was devalued last September 18. Canada's gold and U. S. dollar reserves reached a new high of $1,255 million on June 30. Latin America's holding of gold and dollars had recovered to $3,515 million by March 31—up $375 from the post-war low reported for the end of 1948. Should these trends continue, at an accelerated pace, American dollars abroad could become a drug on the market.



INDUSTRY—Sharply stepped up expenditures for national defense, unless financed by a stiff hike in taxes (unlikely in

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Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	June	1.20	1.13	1.31	1.55
Cumulative from mid-1940	June	397.6	396.4	383.4	13.8
FEDERAL GROSS DEBT—$b	July 13	257.2	257.2	252.8	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	July 5	47.4	48.0	45.8	26.1
Currency in Circulation	July 13	27.2	27.3	27.5	10.7
BANK DEBTS—13-Week Avge.					
New York City—$b	July 5	9.05	9.16	8.77	4.26
93 Other Centers—$b	July 5	13.39	13.45	11.98	7.60
PERSONAL INCOMES—$b (cd2)	Apr.	219.6	225.5	212.6	102
Salaries and Wages	Apr.	141.7	140.0	138.1	66
Proprietors' Incomes	Apr.	42.8	43.5	45.0	23
Interest and Dividends	Apr.	18.1	17.9	17.1	10
Transfer Payments	Apr.	17.0	24.1	12.4	3
(INCOME FROM AGRICULTURE)	Apr.	17.8	18.4	20.8	10
POPULATION—m (e) (cb)	May	151.5	151.4	148.9	133.8
Non-Institutional, Age 14 & Over	May	110.7	110.6	109.5	101.8
Labor Force	May	66.2	64.1	64.9	57.5
Military	May	1.31	1.32	1.47	1.89
Civilian	May	64.9	62.8	63.4	55.6
Unemployed	May	3.4	3.1	3.8	3.8
Employed	May	61.5	59.7	59.6	51.8
In Agriculture	May	9.0	8.1	9.7	8.0
Non-Farm	May	52.4	51.6	49.9	43.8
At Work	May	50.1	50.1	47.7	43.2
Weekly Hours	May	41.8	41.3	41.8	42.0
Man-Hours Weekly—b	May	2.09	2.07	1.99	1.82
EMPLOYEES, Non-Farm—m (lb)	May	43.2	42.9	42.7	37.5
Government	May	5.9	5.9	5.8	4.8
Factory	May	11.8	11.6	11.3	11.7
Weekly Hours	May	39.9	39.7	38.6	40.4
Hourly Wage (cents)	May	144.1	143.4	140.1	77.3
Weekly Wage ($)	May	57.50	56.93	54.08	21.23
PRICES—Wholesale (lb2)	July 11	161.8	159.0	154.0	92.5
Retail (cdlb)	May	185.7	184.1	188.3	116.2
COST OF LIVING (lb3)	May	168.6	167.3	169.2	100.2
Food	May	200.3	196.6	202.4	113.1
Clothing	May	185.1	185.1	191.3	113.8
Rent	May	123.5	123.1	120.4	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	May	11.56	11.06	10.76	4.72
Durable Goods	May	4.13	3.75	3.52	1.07
Non-Durable Goods	May	7.43	7.31	7.24	3.65
Dep't Store Sales (mrb)	May	0.82	0.72	0.83	0.42
Retail Sales Credit, End Mo. (rb2)	May	10.05	9.75	7.95	5.46
MANUFACTURERS'					
New Orders—$b (cd) Total	May	19.5	18.6	15.7	14.6
Durable Goods	May	8.5	8.5	6.0	7.1
Non-Durable Goods	May	11.0	10.1	9.7	7.5
Shipments—$b (cd)—Total	May	19.4	18.4	17.1	8.3
Durable Goods	May	8.6	8.2	7.3	4.1
Non-Durable Goods	May	10.8	10.2	9.8	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	May	54.9	54.9	56.6	28.6
Manufacturers'	May	31.3	31.1	33.4	16.4
Wholesalers'	May	9.3	9.3	9.0	4.1
Retailers'	May	14.3	14.5	14.5	8.1
Dept. Store Stocks (mrb)	May	2.3	2.3	2.2	1.4
BUSINESS ACTIVITY—1—pc	July 8	173.4	174.4	154.2	141.8
(M. W. S.)—1—np	July 8	203.2	204.2	177.3	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 479)

an election year), if superimposed upon an already zooming demand from civilian sources, may lead to scarcities and black markets at dizzy prices. Our good neighbor, Canada, which was far more successful than the U. S. A. in holding down wages, and hence prices, during the last war, reports that her living costs had already risen to a new all-time high by June 1st—largely due to soaring prices for meats.

COMMODITIES—Commodity prices, spot and futures, spurred by war-scare buying, mounted during the fortnight ended July 14 to new highs in nearly two years.

———o———

Summer vacations were mainly responsible for a mild dip in the nation's physical volume of **Business Activity** during the week ended July 8; but the margin of increase over a year ago widened to 14.6%, owing to a much sharper decline during the corresponding week last year when the inventory-liquidating recession was nearing its end.

* * *

This publication's **Business Index** rose in June to 202.3% of the 1935-9 average —2.2 points ahead of May, and 11.5% above the corresponding month of last year. Average for the second quarter was 200.1—7.5 points above the first quarter, and 9.5% higher than last year's second quarter. Average for the first half was 196.3—12.8 points above the second half and 5.9% ahead of the first half of 1949.

* * *

On a **per capita basis,** the June index registered 172.9% of the 1935-9 average, compared with 170.4 in May, and 157.8 for June of last year. Average for the second quarter was 170.9, against 165.5 in the first quarter and 159.2 for last year's second quarter. Average for the first half was 168.2, compared with 158.8 in the second half and 155.8 for the first half of 1949.

* * *

Business expenditures for new plant and equipment made a big jump during the second quarter, rising more than seasonally to a level only 3% below that of a year ago. This points to a further narrow-

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	June	197	193	169	174
Mining	June	148	143	133	133
Durable Goods Mfr.	June	233	228	194	220
Non-Durable Goods Mfr.	June	184	182	161	151
CARLOADINGS—t—Total	July 8	554	783	595	833
Manufactures & Miscellaneous	July 8	300	370	261	379
Mdse. L. C. L.	July 8	64	80	72	156
Grain	July 8	43	49	69	43
ELEC. POWER Output (Kw.H.) m	July 8	5,380	6,115	4,982	3,267
SOFT COAL, Prod. (st) m	July 8	1.5	10.2	4.9	10.8
Cumulative from Jan. 1	July 8	234	233	265	446
Stocks, End Mo.	May	44.8	37.6	72.8	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	July 8	5.5	5.4	4.7	4.1
Gasoline Stocks	July 8	114	114	114	86
Fuel Oil Stocks	July 8	42	41	67	94
Heating Oil Stocks	July 8	56	53	67	55
LUMBER, Prod.—(bd. ft.) m	July 8	397	678	320	632
Stocks, End Mo. (bd. ft.) b	May	6.1	6.3	7.2	12.6
STEEL INGOT PROD. (st) m	June	8.13	8.55	6.50	6.96
Cumulative from Jan. 1	June	47.1	39.0	46.0	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	July 13	365	214	190	94
Cumulative from Jan. 1	July 13	6,244	5,879	4,277	5,692
MISCELLANEOUS					
Paperboard, New Orleans (st)t	July 8	226	220	105	165
Natural Rubber Consumption (lt)t	May	63.7	57.9	46.1	54.3
Do., Synthetic	May	46.7	38.5	35.5	0.5
Pneumatic Casings Production—m	May	8.6	7.6	6.9	3.4
Cigarettes, Domestic Sales—l	May	32.3	25.8	30.7	17.1
Whiskey, Domestic Sales (tax gals.)m	May	4.6	4.4	3.7	8.1

PRESENT POSITION AND OUTLOOK

ing of the gap between this year and last, already down to 6% from originally 11%. Conceivably it could be eliminated entirely by a speed-up of management decisions in anticipation of a progressive war economy.

* * *

In view of the **exigency of war,** this much it seems fairly safe to assume at the present juncture: that the draft will be expanded; that billions will be added to Government expenditures; that slashes in excise taxes are out; but that taxes on personal income in the lower brackets will not be hiked until after the elections; and that, using the oft-repeated crisis technique, sly efforts will be made with the support of left wing laborites to beguile Congress into fastening a socialist autarchy upon the country.

* * *

It might be shrewder politics in the long run to stop squandering billions on handouts and subsidies, and use the large sums thus saved to courageously and honestly prepare to **defend** the **lives** of our voters. Otherwise eventually there may not be many votes left to buy.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. l—Seasonally adjusted index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long tons. m— Millions. mpt—At mills, publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment and charge accounts. st—Short tons. t—Thousands. *—1941: November, or week ended December 6.

THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

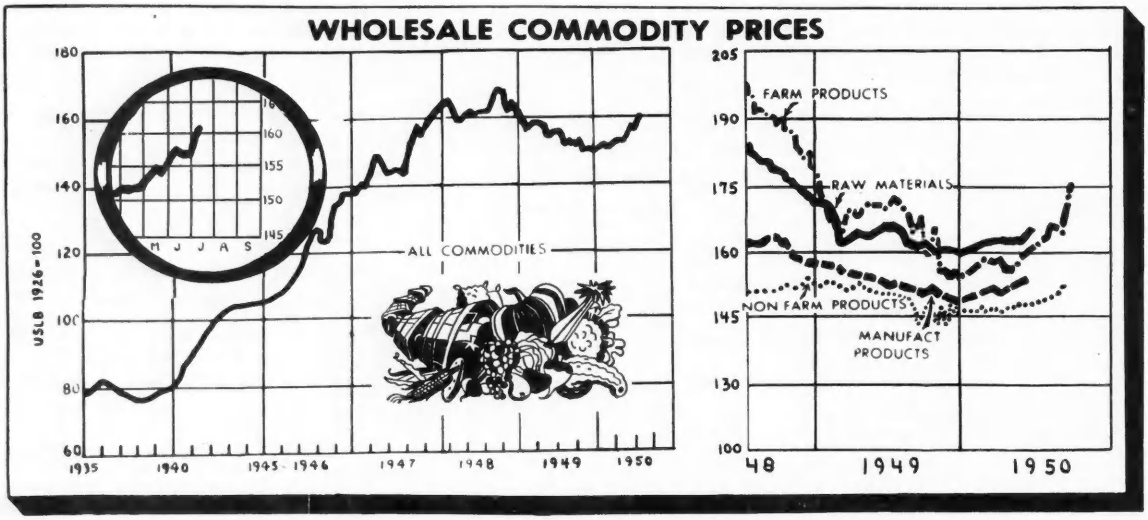
No. of Issues (1925 Close—100)	1950 Indexes High	Low	July 7	July 14
325 COMBINED AVERAGE	153.3	134.7	138.7	135.7
4 Agricultural Implements	207.5	180.7	182.0	180.7a
10 Aircraft (1927 Cl.—100)	238.8	170.8	225.7	226.6
6 Air Lines (1934 Cl.—100)	527.1	450.3	455.8	456.2
7 Amusement	104.4	78.0	81.0	78.0a
10 Automobile Accessories	230.4	190.9	199.5	190.9a
12 Automobiles	36.0	28.5	32.3	31.5
3 Baking (1926 Cl.—100)	23.3	19.0	19.4	19.0a
3 Business Machines	276.5	226.5	240.2	226.5a
2 Bus Lines (1926 Cl.—100)	176.6	149.0	152.1	149.0a
5 Chemicals	304.2	256.4	271.0	256.7
3 Coal Mining	14.3	11.3	11.3a	11.6
4 Communication	61.6	41.9	49.6	48.9
9 Construction	64.9	51.6	55.6	51.6a
7 Containers	342.1	282.1	292.0	282.1a
9 Copper & Brass	100.9	80.3	90.8	91.5
2 Dairy Products	78.3	68.1	72.8	68.1a
5 Department Stores	63.3	56.6	59.7	58.4
6 Drugs & Toilet Articles	209.8	170.2	180.7	170.2a
2 Finance Companies	361.8	257.4	290.3	257.4a
7 Food Brands	181.4	162.0	166.7	162.0a
2 Food Stores	108.0	86.3	92.9	86.3a
3 Furnishings	80.8	61.1	65.7	61.1a
4 Gold Mining	753.5	514.7	535.3	514.7h

(Nov. 14, 1936, Cl.—100)	High	Low	July 7	July 14
100 HIGH PRICED STOCKS	96.03	85.27	88.62	85.27a
100 LOW PRICED STOCKS	183.93	151.88	159.74	158.39
5 Investment Trusts	79.9	66.5	69.7	66.5a
3 Liquor (1927 Cl.—100)	897.6	797.3	815.1	797.3a
11 Machinery	165.5	139.0	145.1	139.0a
3 Mail Order	122.9	99.6	108.9	99.6a
3 Meat Packing	99.0	85.9	88.7	91.6
12 Metals, Miscellaneous	169.3	139.9	152.5	156.3
4 Paper	47.8	39.5	42.5	42.0
30 Petroleum	287.4	241.8	266.4	258.4
27 Public Utilities	153.7	127.7	135.4	127.7a
5 Radio & TV (1927 Cl.—100)	35.3	18.1	26.4	23.8
9 Railroad Equipment	50.7	43.0	43.3	44.4
24 Railroads	26.0	22.3	22.8	24.0
3 Realty	35.9	30.1	31.3	30.1a
3 Shipbuilding	160.7	139.7	148.9	149.9
3 Soft Drinks	391.6	295.9	311.1	295.9g
15 Steel & Iron	120.9	96.1	112.0	112.0
3 Sugar	56.4	48.7	55.2	56.4D
2 Sulphur	352.1	301.6	311.1	301.6a
5 Textiles	143.2	119.9	136.3	138.8
3 Tires & Rubber	40.6	32.0	36.5	35.8
6 Tobacco	88.2	77.3	81.0	77.3a
2 Variety Stores	352.3	313.2	328.2	313.2a
19 Unclassified (1949 Cl.—100)	110.0	93.2	97.7	93.2a

D—New HIGH since 1946. New LOW since: a—1949; g—1943; h—1942.

Trend of Commodities

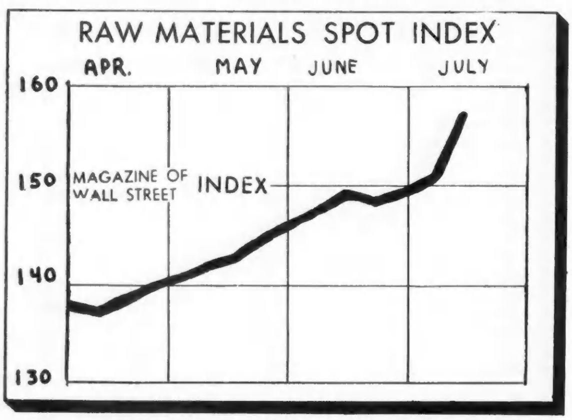
During the fornight ended July 17, war-scare buying boosted commodity prices to the highest average prices in nearly two years. Outstanding performers were the metals and imported commodities such as rubber, cocoa, pepper, wool, hides, sugar and coffee. Sugar was up 1/5th cent; cotton 10%, wool 5%, lead one cent, platinum 12%, rubber 16%, and tin 23%; but steel scrap dropped $6 a ton in anticipation of price control. In May, Russia withheld shipments of manganese and chrome to the U. S. for the third successive month. International Nickel Co. is allocating sales to its customers. Communist bandits are harrassing producers in Malaya which supplies a third of the world's tin and nearly half its natural rubber. The Agriculture Department is glad to find that farmers, generally disregarding last year's acreage allotments, will produce 21% more corn this year than they should have. It might come in handy for feed next year in case of war. Taking a hint from this experience, the Government has decided to permit as large plantings of wheat next year as this year. A few months ago it was planned to order acreage cuts of around 15%. But cotton growers have been more obedient. They've cut acreage 31.3% below last year. Meanwhile, export and home demand has far outgrown the planners' expectations, and our military needs will soon give it another big boost. Thus Government stockpiles are shrinking. During June, 500,000 bales from the 1949 crop loan were repossessed. Also, the Government sold 386,800 bales from its 1948 stocks. This left only 4,586,500 bales in Government hands. In trade circles it is estimated that the present surplus of some 7,500,000 bales will shrink to around 3,000,000 a year from now.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — Agust, 1939, equals 100

	Date July 17	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	290.6	271.2	264.0	247.2	250.2	234.8	156.9
11 Imported Commodities	295.8	272.5	264.3	251.7	259.6	241.4	157.3
17 Domestic Commodities	287.2	270.4	269.8	244.3	244.3	230.6	156.6

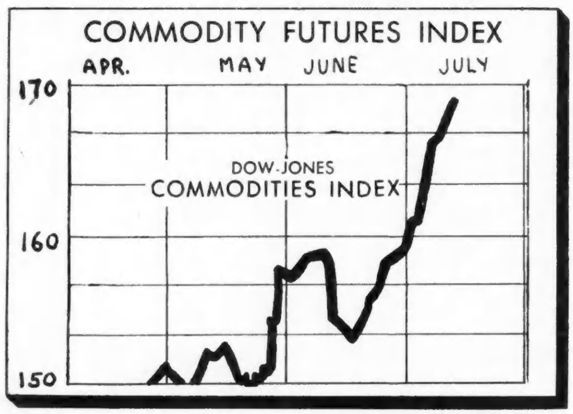
	Date July 17	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agriculture	353.9	340.9	326.6	304.3	300.1	300.5	163.9
12 Foodstuffs	362.1	344.5	327.6	310.1	309.0	287.7	169.2
16 Raw Industrials	260.5	242.9	240.5	218.9	223.0	212.9	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1950	1949	1947	1945	1941	1939	1938	1937
High	157.1	161.5	164.0	95.8	85.7	78.3	65.8	93.8
Low	134.2	134.9	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1950	1949	1947	1945	1941	1939	1938	1937
High	173.79	139.28	175.65	106.41	84.60	64.67	54.95	82.44
Low	140.76	122.45	117.14	93.90	55.45	46.59	45.03	52.03

Keeping Abreast of Industrial and Company News

In order to effect further product diversification, **Minneapolis-Honeywell Regulator Company** has developed a brand new line of specially designed instruments for central power house operations. This marks the company's first big-scale program for producing meters, transmitters, conductivity and other types of recorders, not to mention a dozen other new instrument designs for steam plants and electric distribution. The company's decision to expand into the central station field follows a two year survey of its requirements, particularly in advanced power generating.

A forward step in the administration of antibiotics has been announced by **Charles Pfizer & Company.** Under the trade name "Terrabon," the company's new earth mold drug "Terramycin" is being released to physicians in elixir form, the first time any antibiotic has become available as a liquid preparation for patients. Each teaspoonful of the elixir contains 250 mg. of terramycin, the equivalent of one of the regular 250 mg. capsules that patients have difficulty in taking. The flavor, cherry-mint, was chosen with children especially in mind.

Demand for food cans has increased so rapidly on the Pacific coast that **American Can Company** plans construction of a second big plant in Los Angeles, California, thus reflecting confidence in the continued agricultural and industrial growth of the state. Further prospective increases in the pack of frozen citrus concentrates and fish products should easily absorb the larger output of containers. The present plant produces both fiber milk containers and packers' cans, and output has grown to more than a billion containers annually.

No stronger evidence of the spectacular demand for television sets could probably be found than the experience of **Allen B. DuMont Laboratories, Inc.** at the first annual convention held by their receiver sales division. After the two-day gathering, the tally of orders placed by the company's distributors reached $51.7 million. Du Mont now has distributors in practically every major and secondary TV market in the country, and they are all set to produce record sales of the new 17 and 19-inch tube receivers now offered for the first time.

A new electric dishwasher retailing for only $89.95 and requiring no installation is now under production by the **Cory Corporation's** Chicago plant, with units coming off the line at the rate of 150 daily, and more in the future. The "Matic Maid" dishwasher is a portable machine that washes a full family dinner service for four people, and due to its efficiency and low price may compete strongly with numerous other washers priced at a level beyond the reach of most housewives.

Much of the widening demand for white or light colored rubber products can be attributed to the work of the rubber and chemical industries to find new and better age-resistors or antioxidants. For a long time past, such items as white rubber bathing caps or light colored gaskets in refrigerators have been too easily stained when exposed to sunlight or in contact with enamels. After years of research, **American Cyanamid Company** has finally found the answer to this problem in non-staining Antioxidant 2246. This new product may greatly expand the market for white rubber goods, it is believed; to date the market has only been tapped.

A television demonstration promoted by **Radio Corporation of America** served as a preview to the early opening of the first television station in Sao Paulo, Brazil, quite recently. The president of Brazil, Eurico Dutra, U. S. Ambassador Johnson and Nelson D. Rockefeller headed an audience of 500 leaders in government, industry and society, while approximately 5000 persons viewed on RCA television receivers in the lobbies the official inauguration of Sao Paulo's new Museum of Modern Art. RCA furnished all the equipment for the station, which is owned and operated by Brazil's leading radio network, Emissoras Associados.

Nash Motors division of **Nash-Kelvinator Corporation** is nearing production of prototypes of its experimental $1000 NX1 car, but even if the company decides to go ahead with the new model, steel shortages preclude any early action in this direction. Results of the company's national cross-section survey of public opinion—covering nearly a quarter million motorists—show an overwhelmingly favorable response to this small, quality high-style car, capable of operating 30-40 miles on a gallon of gasoline. The newest model could carry three passengers on the front seat, rather than only two as in the first model, and the wheelbase has been slightly lengthened.

New styling, advanced engineering and a host of new features have been incorporated into a new electric clothes washer and electric dryer now being introduced on a country-wide scale by the **Frigidaire Division** of **General Motors Corporation.** The most important new feature is an improved timer control which makes the washer completely automatic, yet fully flexible. Clothes are thoroughly washed, deep-water rinsed twice and spun damp-dry ready for ironing, with the time required for various kinds of laundry established by dial control.

Armco Steel Corporation has developed a new stainless steel for television viewing tubes. The new alloy will considerably reduce the cost of metal for tubes using such material and permit TV manufacturers to produce even better receivers, it is claimed. All-glass picture tubes until now have been more economical to use than those made of metal, but after several years of research, Armco has overcome this competitive disadvantage. The metal tubes are stronger, weigh less and can be shipped right in the set. The main trouble until now has been the difficulty in producing a metal alloy that would contract at the same rate as the glass screen to which it is sealed. The Armco alloy provides a metal with the desired characteristics at greatly reduced cost.

In the wake of the Senate Armed Services Committee's warning to the nation to prepare for a long and difficult operation in Korea, **Claude Neon, Inc.** has announced that one of its major subsidiaries has greatly stepped up its military output. The company's Reeves Instrument Division has more than $10 million in orders for highly technical electronic and armament materiel for the Armed Forces, and consequently has gone on a double shift basis of operations. At the same time, plans have been completed to double the plant capacity of a second major subsidiary that is the largest manufacturer of quartz oscillator crystals for military use.

Earlier this year, a new $11 million catalytic cracking plant and a new $5.5 million continuous crude-coker were put into operation by the **Standard Oil Company (Ohio)**. Recently a $13 million new solvent lubricating oil plant of Sohio was completed at Lima, Ohio, and went "on stream." The completion of the Lima projects, a part of Sohio's $100 million three-year expansion and modernization program, should double the refinery's capacity. In the lubricating oil plant alone are about 144 miles of pipeline and the concrete foundations, if made into a sidewalk three inches thick and three feet wide, would stretch for 34 miles. 10 million pounds of steel, enough to make 3300 automobiles, were used in the construction; and the daily electric power requirement would light 900 homes. The plant is designed to produce 75,000 gallons of lubricating oil per day.

Standard aircraft propellers in wide use today can be adapted readily to the requirements of gas-turbine powered aircraft capable of 600 mile-an-hour speed, according to the Hamilton Standard Division of **United Aircraft Corporation.** The standard Hydromatic propeller in use on a majority of airline planes and many military and naval types powered by reciprocating engines could readily be modified for gas-turbine use. The few changes needed could be started on the production lines and propellers of proper efficiency could be turned out at a much faster rate than the engines on which they would be used.

The Chemical Division of **Phillips Petroleum Company** has been notified by Reconstruction Finance Corporation, Office of Rubber Reserve, to take over operation of the Government-owned Copolymer synthetic rubber plant near Borger, Texas. Phillips Chemical Company already operates an adjoining butadiene plant which it built for the Government in World War II. This plant now produces more than 50,000 tons of butadiene yearly, the principal ingredient of synthetic rubber. The transfer of the other plant to Phillips marks the first integrated manufacture of synthetic rubber from raw materials to the finished product.

P. W. Litchfield, chairman of the board, **Goodyear Tire & Rubber Company,** observed his 50th anniversary with the concern in an interesting manner. Mr. Litchfield supervised the final production steps of the 500 millionth pneumatic motor vehicle tire manufactured by the 52 year old concern. The 7.60 x 15 passenger car tire was presented to Mr. Litchfield, who in 1901 supervised the construction of the firm's first pneumatic tire. Statisticians estimated that the 500 million tires made by Goodyear, lined up tread to tread, would reach around the world at the equator more than nine times.

Mack Trucks, Inc. recently unveiled its new line of Golden Anniversary Model A trucks, all powered with a new engine, Mack's own Magnadyne. The new models range in size from 17,000 lbs. for medium duty hauling, to 40,000 pounds in the tractor-trailer model for heavy duty highway work. The company has an innovation for its customers in that the new Magnadyne engines require no breaking in. The engines are thoroughly tested in the plants, then completely torn down and rebuilt. Hence the trucks can be put to immediate hard usage as soon as they emerge from the factory. This is only one of many advantages and improvements offered in the new Mack line, all resulting from engineering research into every part and design of the trucks.

A steadily increasing demand for fibre milk containers in southern markets has induced **International Paper Company** to enlarge substantially its mill capacity at Moss Point, Mississippi. Installation of a new paper machine capable of producing 200 tons a day will lift total output to 150,000 tons annually of various paper grades. In order to supply this mill with essential wood, the company may have to spend up to $1.5 million per year for the purpose in adjacent territory in the south. Construction of a complete new power plant, at an undisclosed cost, will also be included in the program.

As a continuation of the large expansion and modernization program that has featured the postwar progress of **Sears Roebuck and Company,** the company plans to expend about $2 million to replace its retail facilities in San Diego, California. At an outlay of $800,000, a ten-acre tract has been acquired where construction work will commence in the immediate future. By early 1952, customers in the San Diego section will be flocking into this modern three-story retail establishment with a total floor area of 180,000 square feet, after finding plenty of available parking space for their automobiles. Sears is also more than doubling its warehouse capacity in this city.

Walgreen Company for years has had a sizable ownership in Whittier Laboratories, a Chicago drug manufacturing concern. It has now been announced that full interest in this enterprise has been acquired and both its production and administrative functions have been merged with those of Walgreen. The Whittier buildings have been sold, but the company name will continue on all products it formerly manufactured.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Fruehauf Trailer Company

I believe Fruehauf Trailer Company's earnings declined in 1949 and have been wondering whether there has been an upturn in earnings in recent months.
B. D., Hartford, Conn.

Net earnings of the Fruehauf Trailer Company, after depreciation and Federal income taxes, amounted to $2,805,276 in 1949 as compared with $5,543,364 in 1948. Net sales totaled $77,621,923, as against $84,728,903 in 1948.

There were a number of conditions which affected sales and earnings last year. (1) The return in 1949 to a more competitive market resulted in a lower margin of profit and a reduction of $7,106,980 in net sales. (2) A jurisdictional strike at the company's main plant early in 1949 reduced efficiencies, giving rise to costs in excess of normal. (3) A sizable loss in production occurred in the first quarter at company's second largest plant, due to model changes. (4) Numerous State legislatures were deliberating possible changes in size and weight laws for commercial vehicles as the year went on and many trailer operators, expecting a liberalization of these laws, put off buying new equipment in the hope they would be able to purchase trailers with greater load-carrying capacities. This situation gradually eased as the year drew to a close.

Earnings per common share in 1949 declined to $1.91, compared with $4.16 per share in 1948 .

Working capital decreased from $38,921,861 at December 31, 1948 to $37,491,500 at December 31, 1949.

Net sales for the three months ended March 31, 1950 totaled $21,715,582 as compared with $19,119,612 for the corresponding period of 1949—a gain of $2,595,970.

Net earnings were $1,371,016 for the first three months of 1950—equivalent to $1.03 per common share, as compared with $808,018, or 57c per share for the same period in 1949.

Inventories have been decreased to less than $25 million—representing a drop of approximately $1,700,000 from December 31, 1949. Bank loans, too, have been reduced to $3 million or a decrease of 40%.

The upward spiral of sales, which began to manifest itself early in January, has continued steadily in ensuing months.

The outlook over coming months appears favorable as the company has effected some production economies in several of its plants which enable Fruehauf to achieve greater success in a highly competitive sales field.

The January to June 1st total in incoming orders amounted to $44,250,000 and establishes company business at a record high level. Net sales for the five months period were $40,623,000.

Dividends in 1949 totaled $2.00 per share and 50c quarterly has been paid thus far in the current year.

Best & Company

The merchandising companies have been laggards in the recent market advance and I have been wondering what the results of Best & Company's operations have been in the past year or so. I would appreciate a report on the company. *W. S., Cleveland, Ohio*

Net sales of Best & Company for the twelve months ended January 31, 1950 were $36,393,986. This was a decrease of $2,722,641 from the previous year or 7%. This decline was caused by the trend toward lower prices and the fact that consumers have been spending a larger share of their income on automobiles and other hard lines and home furnishings. Unit transactions of Best increased slightly over 1948.

Net profit after taxes and depreciation was $1,973,462 or $3.29 per share as compared with $2,853,076 or $4.76 per share for the year previous.

Working capital at the close of the fiscal year showed current assets of $15,676,695 and current liabilities of $4,462,122 of which $1,186,740 is a reserve for Federal income taxes.

Cash on hand January 31, 1950 was $2,546,187 with United States Treasury Bonds and one year Treasury Certificates of $4,500,000 or a total of $7,046,187 as compared with cash on hand of $1,953,775 with U. S. Treasury Certificates of $4,500,000 or a total of $6,453,775 on January 31, 1949. Company had no bank loans.

Dividends of $2.00 per share were declared in the fiscal year and, on an equivalent per share basis, compare with $1.00 per share for the years 1940 to 1944, $1.50 per share for 1945, $2.20 per share for 1946 and $2.00 per share for 1947 and 1948. Dividends have been paid every year since the company was incorporated.

The equity of the issued common stock, with goodwill carried at $1.00, was $27.29 per share on

January 31, 1950 as compared, on an equivalent per share basis, with $26.00 per share on January 31, 1949, $23.24 per share on January 31, 1948, $20.99 per share on January 31, 1947 and $7.92 when issued in 1927.

Company operates its principal store on Fifth Avenue, New York City and has branches at the following locations: Garden City, Long Island, Manhasset, Long Island, East Orange, New Jersey, White Plains, New York, Bronxville, New York, Stamford, Connecticut, West Hartford, Connecticut, Ardmore, Pennsylvania, Boston, Mass., Brookline, Mass., Grosse Pointe, Michigan, Chicago, Illinois, Winnetka, Illinois, Washington, D. C. and Cleveland Heights, Ohio.

Decca Records

Please give comparative earnings record of Decca Records in the past two years. Also advise on financial position.
R. M., Roanoke, Virginia

Net earnings of Decca Records and its wholly-owned subsidiaries in 1949, after provision for taxes and all other charges, amounted to $803,870, equal to $1.04 a share on the 776,650 shares of capital stock outstanding. Net earnings for 1948 were $854,574 or $1.10 per share.

Net sales in 1949 were $19,820,987, compared with sales of $23,867,020 in 1948. Notwithstanding this decrease of approximately 17%, due to general economic conditions as well as the uncertainty prevailing during 1949 concerning turntable speeds, the decline in net earnings was less than 6%.

Last year was one of the most trying in the history of the recording industry. During the greater part of 1949, confusion prevailed regarding turntable speeds.

At the end of 1949, company had total current assets of $9,483,034 against total current liabilities of $4,408,719, a ratio of better than 2.1 to 1. Cash balances at that date were greater than total liabilities, including long-term bank loan.

The results were achieved by virtue of a carefully balanced readjustment of the organization so as to bring expenses in line with the smaller volume of business. The efficiency of production and distribution was increased; at the same time an aggressive recording program was designed to give a more intensive coverage of the market.

Regular quarterly dividends of 12½c a share (50c annually) were paid during 1949. Company has an uninterrupted record of cash dividend payments extending over the past thirteen years.

Consolidated net earnings for the first three months of 1950 were $311,056, equal to 40c per share and this compares with first quarter 1949 net profit of $280,098, equal to 36c per share.

Bulova Watch Company

I understand the watch-making industry was adversely affected last year due to over-stocked and off-brand merchandise thrown upon the market and also increased competition from Swiss importations. Please advise how Bulova Watch Company fared.
E. F., Staten Island, New York

Net profit of Bulova Watch Company for the fiscal year ended March 31, 1950, (before all taxes) amounted to $6,319,225. After taxes were deducted, net profit was $3,568,472, equivalent to $5.49 per share. This compares with earnings of $8.24 per share in the preceding fiscal year.

Dividends including extras totaled $3.50 a share in 1949 and 75c quarterly has been paid thus far in the current year.

During 1949, the entire watch-making industry was confronted with the sudden sale of all types of off-brand, over-stocked or distress merchandise, thrown upon the market and sold through department stores at low prices by "non-advertised" importers who had grown up during the war. However, Bulova's sales and profits held up well under the pressure of this abnormal and temporary competition.

In order to improve prospects over coming months, sales organization of the company has been enlarged and advertising and promotion departments have been expanded. Moreover, Bulova has restyled its line of watches. Company has also made significant improvement in production technique.

Balance sheet as of March 31, 1950 showed total current assets of $27,994,459, total current liabilities of $4,745,168, leaving net current assets of $23,249,291.

The above balance sheet includes assets located in Switzerland and Canada. Current assets and liabilities of Swiss branch and Canadian subsidiary, have been converted into U. S. dollars at official rates of exchange.

The Cream of Wheat Corporation

I understand Cream of Wheat's earnings have shown great stability over a period of years. Please furnish recent pertinent data on the company.
G. S. Atlanta, Georgia

Cream of Wheat Corporation reported net profit of $340,021, equal to 57c per share for the three months to March 31, 1950. This compares with first quarter 1949 net profit of $324,491 or 54c per share.

Net sales for the fiscal year ended December 31, 1949 were $9,282,813 compared with $9,712,214 for the previous year, a decline of 4.42%. This decrease of $429,401 resulted entirely from a smaller volume of unit sales, as the selling price per case remained the same. The decline was especially notable in the export trade. Net sales to foreign countries, other than Canada, showed a decline of 56%. This was expected in view of the unsettled economic conditions in foreign countries and the devaluation of their currencies.

Notwithstanding the decline in volume of business and the other adverse factors above mentioned, operating profits increased. This favorable result was largely attributable to a softening in commodity prices, enabling company to make advantageous purchases of raw materials. The recent capital expenditures in modern packaging equipment and other plant facilities also affected economies in operating costs. Net profit therefore for 1949, after taxes, depreciation and all charges, amounted to $1,451,467 or $2.42 per share, compared with net profit of $1,415,530 or $2.36 per share for the year 1948.

Dividends of $2.00 per share were paid last year and $1.20 has been paid thus far in the current year.

Balance sheet as of December 31, 1949 showed total current assets of $5,646,527 and total liabilities of $1,449,955. This indicates a satisfactory financial condition.

Atlas Plywood Corporation

Please indicate earning trend of Atlas Plywood Corporation and financial position.
E. P., Lansing, Michigan

Consolidated net profit of Atlas Plywood Corporation for the nine months to March 31, 1950 were $804,208, equal to $1.34 per com-

(*Please turn to page* 490)

Another Look at the Tobaccos

(*Continued from page* 475)

essential to produce satisfactory results and to assure dividend stability.

The manufacture and use of smoking tobacco during 1950 is likely to gain a little over 1949. Output of 108 million pounds of smoking tobacco in 1949 showed a moderate advance, and in the first quarter of 1950, production ran about 8½% above last year. In the course of a year, prices for pipe tobacco have been increased about 9%, much in line with higher prices paid to tobacco farmers.

The use of smoking tobacco has rather substantially declined in the last four years of unusual prosperity, as larger income has influenced smokers to turn to cigarettes and cigars. Pipe tobacco consumption since 1945 has been about 45% lower than in the immediate five prewar years. The use of chewing tobacco has also declined, with output of only 90 million pounds in 1949 the smallest on record. In 1950, domestic consumption will probably match the 1949 figure of about 87 million pounds.

The traditionally stable snuff branch of the tobacco industry should experience few variations in sales and earnings in 1950. Production and consumption will probably be around 41 million pounds as in 1949, although a slight downtrend developed in the first quarter of this year. Practically all snuff manufactured in the United States is domestically consumed and markets, though dependable, are quite restricted. First quarter earnings of American Snuff Company, a regular dividend payer since 1903, were reported as 87 cents a share, indicating an annual rate of $3.48 per share compared with $3.40 in 1949. The prospect of narrower margins, though, may reduce 1950 net to around $3.25 a share.

Product Diversification

Most of the large tobacco concerns diversify their output to some extent in producing several forms of smoking or chewing items, aside from cigarettes. Their over-all operations, accordingly, will be somewhat affected by influences pertinent to most branches of the industry we have discussed. Volume of American Tobacco Company in the first quarter of 1950 declined about 2%, but under the impact of increased promotional expenditures, net earnings dipped to $1.43 per share from $1.83 a year earlier.

A 12% increase in the volume of Philip Morris & Company for its fiscal year ended March 31, 1950, widened margins and expanded earnings by 22% to $7.26 a common share. In the quarter ended June 30, 1950, sales of $75.8 million were 19% higher than in the same 1949 period, while earnings were estimated at $1.85 per share on an increased capitalization of 2,331,544 common shares compared with $1.75 on the 1,998,467 shares outstanding a year earlier. A couple of months ago, the company sold 333,077 shares of new common, together with about $13 million new preferred to increase working capital or to retire bank loans.

Although the cigar and chewing tobacco divisions of P. Lorillard did not do too well last year, larger sales of "Old Gold" cigarettes more than offset this disadvantage. Net earnings of $2.73 were 21% above 1948. In the first quarter of 1950, volume was moderately up, but increased promotional outlays held net earnings relatively level at 59 cents a share.

Large sales of "Camel" cigarettes and "Prince Albert" smoking tobacco in 1949 raised earnings of R. J. Reynolds Tobacco Company 17% to $3.75 per share. Operations in the first quarter of the current year were closely comparable to a year earlier, with net per share reported as 74 cents on the Class B common, against 76 cents the year before.

For the past two years, net earnings of Liggett & Myers have slightly exceeded $7 per share, reaching $7.19 in 1949. Volume in the first quarter of 1950 receded about 8%, mainly because of curtailed exports to the Philippines, but good cost controls held the decline in earnings to around 2%, establishing a net of $1.50 a share.

The cigarette stocks did not participate vigorously in the market rise during 1949-50, probably mainly because of their essentially defensive characteristics which are less appreciated in periods of market upswing. Because of this factor, there has been occasional selling from investment accounts which made for continued subdued market action, enhanced by an indicated slight squeeze on profit margins.

During the latest market break, shares in the groups declined with the rest of the market. While the industry's defensive characteristics assure against any sharp drop in sales, there is no protection against any possible future imposition of an excess profits tax, one of the market's main fears at present. It must be noted that cigarette shares at current prices are selling at or close to their 1950 lows and yields are excellent considering the quality of most stocks. Those best situated have attraction on that score as well as for defensive purposes.

Banks at Mid-Year

(*Continued from page* 467)

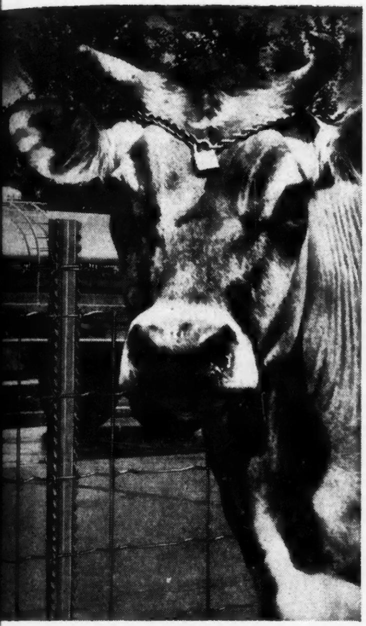
in the June quarter rose $146 million from the March level, but were still about $56 million below June, 1949, With net operating income seemingly certain to remain steady during the balance of 1950, the continued payment of $3 quarterly dividends is assured and towards the end of the year an extra dividend may be declared. In 1949, the year-end extra was $2 per share.

The National City Bank of New York, including City Bank-Farmers Trust Company, in common with most of the leading banks in the East, experienced a relatively moderate decline in deposits in the last six months, although an uptrend developed since the end of March. Total resources of $5.09 billion give this institution a stature only exceeded by the Bank of America, N. T. & S. A. in San Francisco. To show how flexible the operations of the big banks are, National City Bank in the recent quarter expanded its holdings of Government obligations by approximately $92 million to more than offset a decline of $42 million in loans and bills discounted, an increase of about $74 million in deposits providing additional funds. Combined earnings of $1.69 per share by the bank and its trust company subsidiary in the first six months easily covered dividend payments of 90 cents a share.

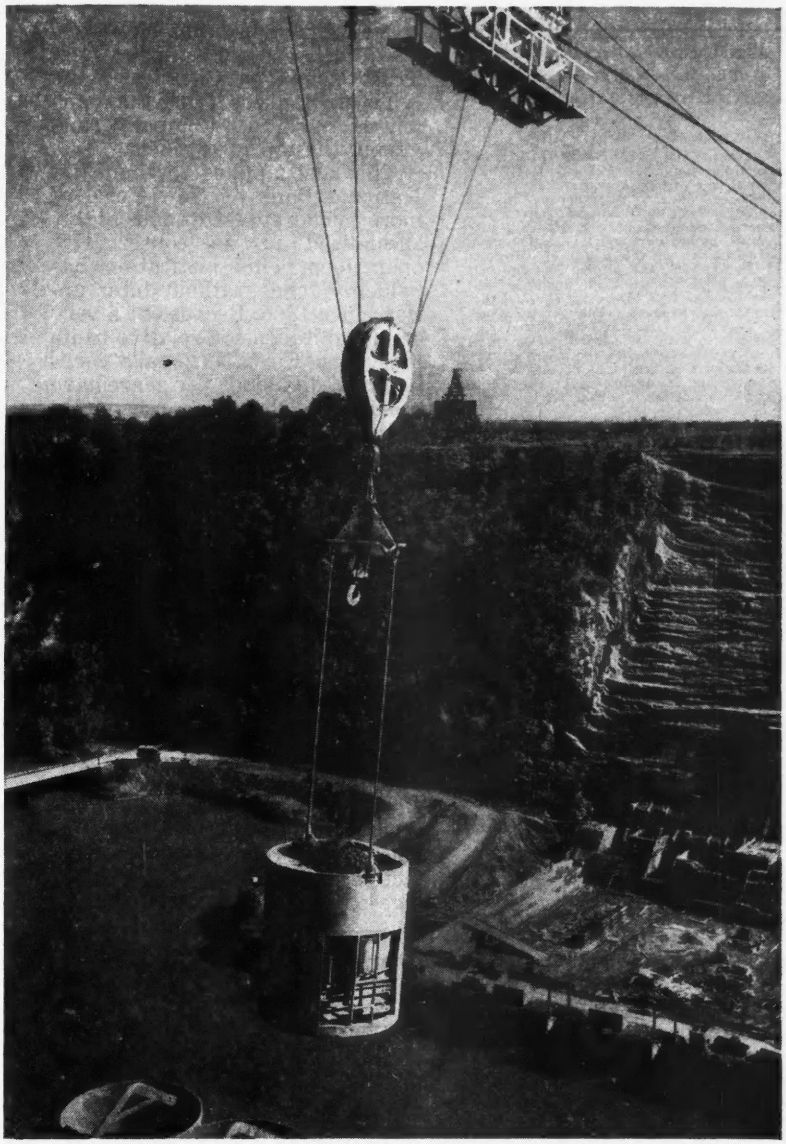
The long experience of National City bank, its diversified operations, excellent earnings record

(*Please turn to page* 490)

so well...



FROM BOSSIE TO BABY'S BOTTLE in the city is a complicated journey for milk. But at every step of the way, equipment of U·S·S Stainless Steel (like the tank truck in the picture) helps to safeguard its purity. No other metal is cleaner, more resistant to corrosion, better-looking. These qualities make it ideal for use in hundreds of household articles, too.



SWING 20 TONS OVER A GORGE. This is the Mt. Morris Dam in process of construction on the Genesee River in New York. And that huge bucket, weighing more than 40,000 pounds when loaded with concrete, swings back and forth across the gorge on a strong cableway operated with U·S·S Tiger Brand Wire Rope. In supplying steel and cement for projects like this, United States Steel continues its number-one job of helping to build a better America.

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Helping to Build a Better America

DIVISION • CARNEGIE-ILLINOIS STEEL CORPORATION • COLUMBIA STEEL COMPANY • CONSOLIDATED WESTERN STEEL CORPORATION • GERRARD STEEL STRAPPING COMPANY
COMPANY • UNITED STATES STEEL PRODUCTS COMPANY • UNITED STATES STEEL SUPPLY COMPANY • UNIVERSAL ATLAS CEMENT COMPANY • VIRGINIA BRIDGE COMPANY

and sound financial position lend attraction to its shares, recently selling at 43½ to yield 4.1%. The book value of the shares, as in the case of most bank stocks, is progressively increasing, although this not fully reflected by their market action. As of June 30, the book value of National City Bank shares was $54.02, and of total assets, 38.2% are represented by Government securities.

Above average stability has characterized the operations of Central Hanover Bank and Trust Company for almost a century. Shareholders in this institution have received dividends regularly since 1853, despite the periodic impact of wars, panic and economic upsets. Deposits since a year ago have held on a fairly even keel at a level close to $1.4 billion, but conservative policies have induced the management to include a slightly larger proportion of Government securities in their portfolio in the current year.

As of June 30, these holdings equalled 41.8% of total assets compared with 39% a year earlier. Slightly higher expenses and moderately smaller income from business loans combined to reduce net earnings in the first six months of the current year. Net indicated earnings of $3 per share in the recent half year amply covered related dividends of $2 per share.

A study of our table shows how very little the current yield on most of the leading bank shares varies, generally ranging from 4.1% to 4.5%. This strongly reflects confidence in the basic soundness of our banking system and assurance of continued profitable progress. Several of the New York banks which for lack of space we have been unable to discuss, such as the Manufacturers Trust Company, Chemical Bank & Trust, Bankers Trust Company and Irving Trust Company rank among the top in the field.

This also applies to the First National Bank of New York, of more moderate size and highly specialized in its conservative operations. This institution has paid dividends without interruption since 1865. Because of a very small capitalization relative to its resources, First National's earnings and dividends per share have been very large, consequently holding the price for the shares in a very high range; a recent quotation of $1265 a share evidently renders the stock suitable for wealthy investors only. The rather narrow market undoubtedly accounts for the liberal yield of 6.3%.

While bank shares to some extent follow price trends in the stock market, although they are not listed on the Exchanges, their volatility is relatively slight. With so many uncertainties clouding the horizon, banks shares constitute an excellent defensive medium for cautious investors, because of traditional earnings stability and relatively low risk factor, enhanced by heavy holdings of Government securities.

Danger Spots in East-West Crisis

(*Continued from page* 465)

tions ruled the country and controlled the parliament.

A communist revolution in Iran would probably be followed by communist "putches" in *Syria* and *Iraq,* outflanking thereby the whole Western position in Egypt and Arabia with its tremendous wealth of of petroleum. As in Iran, the economic situations in both Iraq and Syria have been deteriorating, owing to inflation and to a succession of weak governments, some of which have been threatening openly to join the Soviet orbit in retaliation for the "pro-Zionist policy" of the western powers.

Next to Indo-China, the most likely place for further Soviet aggression is *Yugoslavia.* If successful, such a move would yield by far the greatest dividends. There would probably be no greater satisfaction to Stalin than the liquidation of Tito's heresy which consists not of "mistaken" economic or social policies, but of doubting Stalin's "infinite wisdom" as to what is good or bad for the state interests of Yugoslavia. It would be a lesson to all other satellite countries.

Moreover, the recovery of Yugoslavia for "orthodox" communism would be of tremendous strategic importance. The Soviet Union would regain access to the Adriatic and to Italy; Albania would no longer be a lonely outpost of the Soviet Empire; above all, Russia's south-European flank would once more be protected, and the "iron curtain" would again be the shortest line between Trieste and Stettin.

There would also be important economic gains. The industries of Poland, Czechoslovakia, and Hungary have been inconvenienced by the inability to get Yugoslav copper, lead and bauxite, the production of which has meanwhile been developed by International Bank loans.

Yugoslavia has now been under a coordinated Cominform press attack for nearly two years. The Yugoslav transportation system, in worse shape than ever before because of the desperate need of equipment—tires, trucks, locomotives, and steamers—is being sabotaged. The blockade imposed by the Cominform against trade with Yugoslavia—the shipments of cotton and raw materials from Russia, machinery and mining equipment from Czechoslovakia and Hungary—has slowed down the whole Yugoslav economy. Moreover, the country has been wasting its energies on grandiose "planned" projects, such as the draining of Scutari Lake, which have doubtful economic value.

The Yugoslavs are among the world's best soldiers, but how long they could defend themselves against Russian-equipped forces from Hungary, Roumania, and Bulgaria is a moot question, unless strongly supported by the western powers. And such support, of course, might easily bring the Soviets themselves into the fray.

Answers to Inquiries

(*Continued from page* 486)

mon share and this compared with the corresponding period of the preceding year when net profit was $1,712,057 or $2.85 per common share.

Will Sugars Stay Sweet Market-Wise?

(*Continued from page* 473)

soft drinks. About 9 per cent of domestic consumption went into confectionery supplies and approximately the same amount was consumed in bakeries and in making cereals and allied products. Incidentally, it is interesting to observe that total imports from Cuba last year closely approximated domestic industrial needs of 3 million tons.

As might be supposed, war fears have spurred investment and speculative demand for sugar shares. New 1950 highs in the trading list in recent weeks have been dominated by shares representing this industry although, while production and distribution are so stringently regulated, it seems questionable whether typical producers will be permitted to attain fancy profits.

The logic of buying these stocks in anticipation of high earnings of the early postwar period may be doubted. Nevertheless, the current scare came at a time when supplies of sugar in the hands of producers were deemed excessive and consumers felt no uneasiness over the threat of scarcity or of price advances. Thus economic conditions had contributed to an unfavorable environment for shares of the major producers and refiners.

It was reasonable to look for a fair-sized upturn in sugar stocks, therefore, since they had been unpopular for several years and were not far above their postwar lows when the threatened national emergency swept over the market. Moreover, a more constructive attitude toward representative stocks in this industry would appear justified on basis of developments in the Far East. Even should the Korean affair be localized, there is little doubt but that for some time to come, preparations for a more extensive conflict will be necessary. Sugar consumers will feel impelled, therefore, to maintain larger inventories than normally as a measure of insurance.

Demand for canned goods already has felt the impact of consumer hoarding. Thus the food industry may be expected to enlarge its demand for sugar in the approaching canning season and housewives, likewise, may be in-

duced to put up larger quantities of fruit and vegetables than otherwise would have been the case. In short, consumption of sugar is being stimulated at an exceptional rate and inventories are moving into channels other than usual trade sources. Experience suggests that in building up so-called hidden inventories, the public may exert an abnormal demand for sugar for many months to come.

This turn of affairs has strengthened the industry's statistical position and may be expected to lay the groundwork for a strong bargaining position on the part of West Indian producers when the time comes for establishing prices for the 1951 crop. Competition from Far Eastern sources has failed to recover its prewar position, largely as a result of widespread destruction of sugar plantations in Java, and the threat of aggression now has raised doubts over supplies from the Philippines which normally come into this country under the quota system.

Urgent need for shipping on Pacific routes may hamper shipments of Hawaiian sugar and other products customarily sent to the mainland. Thus conditions in recent months have greatly strengthened the competitive position of Cuban and Puerto Rican producers. It would appear that domestic beet producers may also be expected to fare well as a result of changed conditions. If the spurt in industrial activity, however, should draw labor from agriculture and boost operating costs of domestic growers, profit margins might be pared. Under the circumstances, it would seem unwise to count on any spectacular boom in earnings.

Action of Sugar Shares

On the other hand, most sugar stocks were severely depressed in the market decline which began in 1946. Fears of a repetition of adverse conditions which crushed the Cuban sugar industry after the first World War overshadowed the investment market. Despite the fact that representative companies had been greatly strengthened financially and all indications of adoption of effective measures to keep supply and demand in reasonable balance, investors shunned stocks in this industry. Even yields of 10 per cent or more failed to arouse much interest. Accordingly, now that prospects for more favorable marketing conditions have developed, high yields look more interesting.

As a matter of fact, a study of numerous companies shown in the accompanying compilation will disclose rather impressive records for the last decade. Admittedly conditions have been unusually favorable in this period, but who is to say that worldwide tension may not prevail for some time to come? Hence, as a hedge against worsening of international affairs, sugar stocks may have increasing appeal.

Representative companies, as may be seen in the accompanying statistics, afford relatively high yields which are protected by ample earnings in most cases. Although it is hazardous to forecast earnings of agricultural companies for more than a few months ahead, particularly in the early stages of the growing season, experience shows that over the years, earnings have held up comparatively well.

Doubts over the industry's future are based on the threat of over-production. It is true that sugar may be grown almost anywhere. Cane is abundant in the tropics and beets are easily cultivated in more temperate zones. In major producing areas, however, Government controls have become so firmly established — covering wages and other cost factors in Cuba—that the threat of ruinous competition is more fanciful than real.

Elimination of all likelihood of excessive supplies undoubtedly would place stocks of sugar producers in a more favorable light. Political trends, always difficult to forecast, are especially important in governing production and distribution in the sugar industry and always must be taken into consideration in appraising the outlook for share prices. Thus an element of risk is injected which tends to make sugar stocks extremely volatile.

The outlook for refiners is reassuring for the moment in spite of the fact that the urgent consumer demand evident recently contributes to tense relations between refiners and their customers who may feel they are not receiving their proportionate shares of shipments. Ordinarily, refiners depend upon a fairly stable margin between their selling price and their costs. Under the quota distribution system, this margin is fairly well controlled despite the absence of actual officially established wholesale price ceilings.

Refiners' volume over coming months undoubtedly will be larger than under normal conditions and margins may be slightly better than otherwise would have been the case. Hence, profits for the second half of the calendar year promise to range well above first half results. Nevertheless it is recognized that sales at this time are borrowed from the future and that if the Far Eastern scare should blow over in the next four to six months, volume in the first half of 1951 might be adversely affected as consumers use up inventories accummulated this year. On balance, prospects for refiners appear somewhat more promising for the near term than seem probable for 1951. The market in due course will reflect these factors as they unfold.

For Profit and Income

(*Continued from page* 477)

tributed the bulk of earnings. The stocks sell on dividends, rather than earnings. Since coverage is narrow, any material boost in the corporate tax rate might mean proportionate cutting of dividends. Last year American Snuff distributed about 80% of earnings in dividends, U. S. Tobacco 88% and Helme nearly 96%. Any squeeze—whether from taxes or a renewed inflation of costs—would dictate some reduction in total yearly payments.

As I See It!

(*Continued from page* 449)

flects any desire to come to a peaceful settlement with the West; rather it is a clear sign of war-like intent, open aggression not only against South Korea but against the entire West, and the U.S.A. in particular. In the circumstances, any suggestion that the dispute might be settled by negotiations loses everything. Any appeasement now would be even greater folly than at any time in the past. It would merely play into the hands of the Soviet goal to control and direct against the West the forces of Asia and Asiatic nationalism.

Outlook For Foods And Dairy Stocks

(*Continued from page* 471)

increased demand that henceforth may tend to sharpen. Regardless of the limitations on margarine, output in 1949 was the second largest on record, and in the first four months of 1950 production slightly expanded. In anticipation of the tax removal, production of colored margarine soared to more than 18 million pounds several months ago, a gain of about 70%, while the price receded measurably through the certainty of continued lower quotations.

Finances of the prominent dairy concerns are very strong, and they are all reaping the reward of large scale postwar improvement programs that have not only reduced manufacturing but distributing costs as well. Additions of modern truck fleets, curtailed delivery service, installation of up-to-date processing equipment, together with enlarged manufacturing and warehousing facilities, are enhancing potentials for more satisfactory profit margins. In reflection of these improvements, several of the dairy companies have been able to pay somewhat more liberal dividends in the current year.

PACKAGED FOODS: Available interim reports of manufacturers of packaged foods reveal that earnings of the majority in the forepart of 1950 showed improvement over the comparable period of 1949. Operations in this division of the food industry are so specialized, though, that factors applicable to one company do not necessarily apply to another. No diminution in the strong demand for popular brand names seems likely through the balance of 1950, and ample purchasing power is assured to satisfy home needs. Currently it seems possible that the more durable quality of packaged foods is leading to their stepped-up purchases by consumers mindful of serious shortages in the last war, but this hoarding urge may not endure long, due to the prevailing abundance of basic foods. In any event, the industry needs no abnormal stimulus to assure high level sales in this prosperous year.

The improved processing of fruit juices has been reflected by an almost spectacular uptrend in their demand this year. The production of frozen orange juice in Florida through April 15 climbed to nearly 12 million gallons, or more than the entire 1948-49 pack in that state. This is equivalent to about two 6-ounce cans per capita in the United States and has much more than offset the decline in use of canned citrus juices. Until now the profits on frozen juices have been very substantial, but margins will probably narrow on this business in due time. On the other hand, increasing sales to some extent may produce steady earnings from this source, and use of the frozen process is rapidly extending to a number of other fruit juices. Both General Foods and Clinton Foods are aggressive in this field which is proving highly profitable.

Aside from larger expenses incurred in promoting sales, the leading firms in the packaged food division currently should have small difficulty in maintaining stable earnings. Reduced prices have stimulated demand, and price lowering has been logical in view of lower materials costs. Most of the concerns no longer have to meet a problem arising from inventory losses that in the preceding two years made considerable inroads into earnings. The outlook for stable dividends by the better situated concerns is above-average good.

CANNERS: Supplies of canned or frozen fruits and vegetables in the current year are ample for all consumer needs, even if civilians decide to buy considerably more per capita than they did in 1949. The crop season is proving very satisfactory, with prices moderately reduced. During the 1950 winter season, production of vegetables in warmer sections was about 9% above last year, and stocks in the hands of processors and wholesalers were slightly higher at mid-year. Early frosts reduced the fruit crops somewhat, both in the East and West, but on the whole nothing like a real shortage resulted. Some of the canners that also handle frozen foods are benefitting from the increased popularity of these items. Cold storage stocks of frozen vegetables on April 1 were about 30% larger than a year earlier, while the

rate of consumption advanced almost in proportion. The 1950 salmon pack closely compares with 1949.

It is difficult at this time to appraise how much the canning division may be affected by military planning or by war psychology. Canned foods of course are a primary essential for the military and at the same time may become a popular hoarding medium. Temporarily, at least, the accumulation for home consumption is being accelerated on quite a scale. Unless, accordingly, the tight position of steel supplies restricts the available amount of tin containers, sales and earnings of the canners in the second half year may expand considerably. The impact of potentially higher taxes probably will not be felt until after the beginning of 1951.

BAKING AND MILLING: The great abundance of wheat assures fully adequate supplies for the leading flour millers. While the new crop is estimated at less than one billion bushels compared with a considerably larger figure in recent years, it would still be more than ample for domestic needs, and after allowing for exports, will probably establish a carry-over of around 500 million bushels for 1950. Although commercial flour mills have been operating at less than 60% of capacity in recent months, the prospect of fairly steady wheat prices should minimize inventory losses, and since flour prices average higher than a year ago, earnings of the leading mills should continue reasonably stable, while current dividend rates are unlikely to change.

Heavy advertising costs and intensified competition held net earnings of most *bakery* concerns at a rather disappointing level in the first quarter of 1950. Some recovery in the second half year may result from recent price rises for bread and cakes, but it is a question whether earnings for full 1950 will quite match those of 1949. Earnings of the *cracker* and *biscuit division* should continue to benefit from completion of large scale plant improvement programs, though price reductions may reduce volume from the former peak. Total dividends of the leading firms may prove slightly larger than a year earlier. Earnings of *breakfast cereal manufacturers* also should remain satisfactory, and might expand somewhat if inflationary trends should push up prices of other foods.

GRAIN PROCESSORS: Record supplies of corn enhance the potentials of corn refiners, and the uptrend in prices for sugar, if it holds, should tend to give a competitive advantage to corn syrups. The profit margins of the corn refiners for some years past have been especially satisfactory, and operating economies effected in post-war have been substantial. In the first five months of 1950, wet process corn grinding was 5.2% higher than a year earlier, in reflection of increased demand. As the abundance of corn should preclude any marked increase in costs, 1950 will likely prove a very satisfactory year for the corn refiners.

Industries and Companies to Benefit From Defense Spending

(*Continued from page* 457)

shares despite excellent current and prospective earnings, since the impact of any curtailment will not be immediately felt earningswise.

As against this, the paper industry is another field that should do quite well. To continued heavy normal demand has recently been added a good deal of precautionary buying in anticipation of higher prices and possible shortages, hence talk of early resort to an allocation system if demand continues to exceed capacity production. As a consequence, most paper shares have been holding fairly well in recent markets. EPT of course would be an important earnings determinant.

If the Korean war has prompted heavier-than-usual buying of electrical appliances, such action has not yet been reflected at the manufacturer level nor has it appreciably affected supplies which, except in a few categories, remain ample. Appliance makers feel that near-record sales in the past have satisfied most deferred demands and lower volume was normally expected during the late summer and in fall. A mild buying rush might nevertheless ensue, should controls threaten manufacturers' output. This would primarily affect appliance business; the manufacture of heavy equipment is not likely to be disturbed because of its essential nature.

Generally, as far as consumer durables are concerned, the limited mobilization now underway will involve the compulsory right of way for military orders but no initial attempt to schedule non-military production. Any cutback of the latter will be brought about indirectly, by allocations of essential raw materials and by stricter credit controls to lessen demand.

All of which might bring about a certain shift of consumer buying to soft goods, hence renewed market attention to textile shares and to equities of retail merchandising companies. Even liquor shares are viewed somewhat more optimistically for possible sales and earnings gains resulting from full employment and less buying emphasis of hard goods. Whether these expectations materialize is of course another question.

Summing up, industries most likely to benefit from stepped-up defense spending under limited mobilization will include the aircrafts, railroads, steels, oils, non-ferrous metals, sugars, trucks, paper. Among secondary beneficiaries of prospective conditions could also be mentioned the airlines, textiles and probably liquors. Statistics on selected shares in the first category are presented in the appended tabulation. The sample of course is far from all-inclusive.

Second Quarter Reports and Prospects Under Partial War

(*Continued from page* 459)

dend of 50 cents a share, payable September 15, following quarterly payments of 40 cents since December, 1947. Since the output of Rheem importantly includes steel oil drums, military demand for these items may considerably expand, and the concern is well situated to supply other products that the Armed Forces may require. This may well offset any cutback in civilian output that may be required in the future.

For the third consecutive year, the net earnings of Lehigh Portland Cement have advanced in the first six months of the year, and the same applies to second quarter earnings. Net of $2.18 per share in the June quarter of 1950 com-

pares with $1.82 in the same 1949 period and $1.61 in 1948. The company reported earnings of $2.93 a share for six months versus $2.51 in the same 1949 interval. Well sustained construction activities of both public and private character account for consistently advancing volume, aided by enlarged capacity. Although signs are accumulating that the Government may curb home building, defense needs may expand demand for cement in road work or for military purposes. Tighter pricing, heavier taxes and the possible reappearance of excess profits taxes, though, make it questionable whether this cement manufacturer for long may be able to operate with a net profit margin of 15%, as in the quarter just ended.

In common with many television manufacturers, Motorola, Inc. has verified optimistic predictions as to spectacular earnings gains in the current year. Estimated second quarter earnings of $2.97 per share were 134% higher than in the related 1949 quarter, following a comparable rise in sales to $34.5 million from $19 million. Net earnings of $6.50 per share in the first half nearly equalled the $6.60 earned by the company in all of 1949.

By the end of July, Motorola will introduce its 1951 new line of television, home and auto radio sets, and is prepared for the largest six-month sales in the company's history. The management based its estimate on the assumption of no regulated change in the company's operations, a wise qualification under the new conditions. If heavier down payments are required on Motorola products, or restrictions placed on steel or the electrical components, it needs in large quantities, it is almost certain that the optimistic forecast will have to be revised. Military orders may fill a potential gap, but margins on this class of business would probably be lower, while tax costs might become a serious factor in computing net earnings.

Aided by a 32% gain in volume during the second quarter compared with the year before, earnings of Caterpillar Tractor Company reached a record high of $2.30 per share against $1.01 in the same 1949 period. Larger volume and the fruits of postwar modernization have combined to increase the net profit margin of this efficiently managed concern to 10.7% in the recent second quarter from 6.1% last year.

At least one large food distributor made substantial progress in the second quarter. National Tea Company, on a twelve-week basis, established new record volume of $69.8 million despite a downtrend in prices in the course of a year. The gain compared with the same period in 1949 was about 12%. Although the net profit margin was only 1.7%, the enlarged sales pushed net earnings per share up to $1.51 compared with $1.19 in the same period last year. A further reduction of 12 stores over a year evidently has brought operating efficiencies, as has more emphasis on meat distribution. On June 17, all but 53 of the company's 646 retail stores included meat markets.

Wisest Market Policy Now

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Communist puppet aggressions elsewhere. The more deeply we are engaged in Asia, the weaker we become relative to any conceivable showdown in Europe now or over the medium term. If Stalin does not precipitate that showdown soon, it would seem a reasonable surmise that he never will. If he does not, you can credit his discretion mainly to our presumably larger stockpile of atomic bombs and our presumable superiority in strategic airpower.

It is a mere statement of fact to say that the results of the Administration's foreign policy, and of its planning and administration of the defense program, have been gravely unsatisfactory to date. As usual, the party in power will be unable to escape having the political responsibility pinned mainly on it. The issues and emphasis in the nearby congressional campaigning – quite possibly also in the 1952 Presidential election–have been altered. Only time will indicate the consequences.

We repeat that medium-term visibility in the stock market is just about nil. Going mainly on the basis of longer-term considerations, including inflation and past market history in and after war periods, we recommend retention of existing holdings of good and sound stocks provided that adequate cash reserves are maintained.–Monday, July 24.

The American Economy

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for any eventuality and that precisely is the reason for the sweeping power demanded. Any less extensive and ambitious program might have been taken as a sign of wavering or weakness, and defeated its purpose.

Total war, on the other hand, would certainly mean complete regimentation of the nation's entire economic life, controls far more complete and stringent than anything seen during World War II. The hope is that by firm action now, it can be avoided.

Barring total war, the prospect points to no more than piecemeal expansion of the controls as outlined in the foregoing, including moderate material restrictions and output limitations on civilian goods, credit curbs, manpower draft and higher taxes. Chief bottlenecks will be found in nonferrous metals, and in only slightly lesser degree in steel. Biggest problem will be inflation; unless it can be checkmated, it may eventually lead to price, rent and wage controls, even to rationing. The latter extremes are not an early prospect; with luck and common sense, they may be avoided.

Not so higher taxes. Details of the tax program will come later, but it is quite clear that Administration thinking is along the lines of an excess profits tax as well as a boost in the corporate and individual income tax. Purpose of EPT is not only to gain much-needed revenue but to crack down on profiteering. A boost in personal income taxes, apart from revenue aspects, is looked upon as an antidote against inflation since it is bound to cut individual purchasing power. Piling a war on a record business boom thus is bringing the expected results. Something must give, even under partial mobilization.

Priorities at first will likely be limited to key war orders with industry given a chance to allocate the remaining materials supply on a voluntary basis, and check price rises. If self-policing isn't enough, mandatory controls will take over. Either way, it will mean more arms, less stuff for civilians. Even partial mobilization may mean incisive shifts. The home front will slowly feel its impact.

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